CWB

2001-02 ANNUAL REPORT

CORPORATE PROFILE

The CWB markets western Canadian wheat and barley in Canada and throughout the world. All sales revenue minus marketing costs is returned to farmers. The CWB is controlled by a board of directors that is comprised of 10 farmer-elected members and five federal government appointees.
As a major international grain trader and a major earner of foreign exchange, the CWB enables Prairie wheat and barley producers to go head-to-head with other major players in the grain industry.

Vision

To create value for Prairie farmers by being an innovative world leader in marketing grain.

Mission

The CWB markets quality products and services in order to maximize returns to western Canadian grain producers.

2001-02 Financial Highlights

	2001-02	2000-01	1999-00	1998-99	1997-98
Revenue ($ millions)	**$ 4,298.9**	$ 4,227.7	$ 4,482.4	$ 4,026.7	$ 4,757.7
Direct costs	**115.7**	177.4	164.3	149.1	170.7
Administrative expenses	**50.5**	66.4	63.8	55.2	52.9
Grain industry organizations	**1.7**	1.7	1.7	1.7	1.6
Net interest earnings	**(91.6)**	(75.2)	(71.0)	(72.5)	(75.9)
Operating costs	**76.2**	170.3	158.8	133.5	149.3
Earnings for distribution	**$ 4,222.7**	$ 4,057.4	$ 4,323.6	$ 3,893.2	$ 4,608.4

Note – 1997-98 figures have been restated to reflect pooling points as Vancouver/St. Lawrence

Receipts from Producers *(000 tonnes)*					
Wheat	**13 331**	13 961	16 427	12 513	15 201
Durum	**3 246**	3 665	3 976	4 905	3 938
Barley	**54**	454	672	277	262
Designated Barley	**2 205**	2 273	2 554	1 922	2 267
Total	**18 836**	20 353	23 629	19 617	21 668

Delivering value to farmers is the core of our business

Overcoming adversity means taking stock of what is important and leaving the rest behind.

Western Canadian farmers have faced many challenges in the past year. They have had to re-examine each facet of their businesses and determine what is essential and what can be put aside. Many tough decisions have been made, some as gut-wrenching as selling a breeding herd because of lack of feed, letting go of some acres or getting out while there is still some equity in the farm. Farming is never easy. But when weather is as uncooperative as it was in 2001-02, farmers need to focus on what works for them and their businesses and need to rely on this *core* of strength and value in building for the future.

The CWB strives to be one of these "sure things" on which farmers rely. We work hard to be an aggressive, competent marketer of their wheat and barley that adds value for them at every step in the grain marketing chain where we are involved. We use the tools at our disposal – the single-desk, the pool accounts and government guarantees on credit sales and farmer payments – to be a core of strength for farmers, to ensure that their returns from the marketplace are maximized.

This year's annual report is built around the theme of *Core Value*. It emphasizes the CWB's role as a stable presence for farmers in the grain industry, as a mainstay, a *core*. It also recognizes that at the core of the CWB's operations, there is the duty to add value for farmers. Lastly, the report is built upon the six core values that are fundamental to the CWB's operations:

- Create value for farmers
- Deliver service excellence
- Develop great people
- Demonstrate integrity
- Be world class
- Embrace innovation and change

CONTENTS

In recognition of the challenges that farmers faced in 2001-02 and that they continue to face in the current crop year, this is also a simple, no frills annual report. This is an annual report where we have tried to cut costs at every level, from the quality of the paper stock to the quantity of pictures to the number of pages.

Our commitment is to add value for Prairie farmers in every aspect of our business.

The CWB's core values are not just words on a piece of paper. They are the principles that guide how we act and the decisions that we make.

"The new test bakery shows customers how to use western Canadian wheat and flour in their baked goods."

– **Art Macklin,** CWB Director and Chair of the Canadian International Grains Institute


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未来への投資

Create value for farmers

Build a results-oriented enterprise accountable to the farmer.

The CWB is committed to increasing marketing opportunities for Prairie farmers. This means finding new markets for the crops that are already being grown and providing leadership in the development of the crops that will secure market share for western Canadian wheat and barley for years to come.

OPPOSITE PAGE (LEFT TO RIGHT): *CWB director and Canadian International Grains Institute (CIGI) Chair Art Macklin breaks a ceremonial loaf of bread at the opening of CIGI's test bakery, April 2002; the CWB has been one of the main supporters of the Canadian Malting Barley Technical Centre, officially opened October, 2001; Canadian Grain newsletter to Asia-Pacific grain industry partners – published in English, Mandarin and Japanese (shown); the CWB participated in a technical seminar at Janjing Brewery, Beijing, China, December, 2001.*

The Elliott family (left to right): Jamie, Chad, Vicky, Blair and Brent. They farm near McLaughlin, Alberta.

"Developing new markets is key to our future. Through projects like the Canadian Malting Barley Technical Centre and ongoing involvement in the Canadian International Grains Institute, the CWB helps us compete effectively with the other sellers in the market."

Blair Elliott – McLaughlin, Alberta

"We have a horse (Canadian durum) that is winning and why would we change a horse that is winning?"

– **Michel Marbot**, mill owner and pasta manufacturer

Deliver service excellence

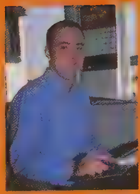
Be dedicated to a customer focus in all we do.

The CWB bridges the gap between customers and farmers in many meaningful ways. It brings farmers face-to-face with customers, arranges tours to showcase Prairie grain to buyers and hosts seminars to increase farmer awareness of customer needs.

OPPOSITE PAGE (LEFT TO RIGHT)
manufacturer Michel M

"Everybody talks about connecting farmers with their end-use customers. The CWB's yearly durum conference does just that."

Kirt Mueller – Foremost, Alberta



Develop great people

The CWB's employees are its greatest asset, bringing a rich diversity of training and experiences to the company. Many come from family farms. The CWB provides employees with a challenging work environment and opportunities to improve their skills. It also invests in the professional development of young people from across Western Canada through bursaries and scholarships.

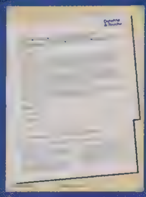
OPPOSITE PAGE (LEFT TO RIGHT) [illegible]
an award [illegible]

"Agriculture has always been a very important part of my life. I grew up on a farm and was active in the local farming community. It was a privilege to win the CWB scholarship in 1994 and it helped me get my university degree. Working in the CWB's Business Centre is a natural fit for me. I enjoy interacting with farmers and other people in the grain industry."

Bev Staniland – Minitonas, Manitoba

"We see the audit results as a confirmation that the CWB is an effective marketing organization."

– **Ken Ritter,** CWB Chair



Demonstrate integrity

Maintain the highest standards of ethical business conduct.

Integrity and ethics are the backbone of any successful business and crucial to its long-term survival. The untarnished reputation of the CWB ensures the trust of farmers who control it. An impartial audit by the federal Auditor General found the CWB to be economically and efficiently run.

OPPOSITE PAGE (LEFT TO RIGHT):

"I was confident the CWB was being operated and managed efficiently. But the Auditor General's report gave me more proof. It's good to see that the CWB is acting on the Auditor's recommendations. Putting long-term goals and strategies in place is important.

Bill Toews – Kane, Manitoba

"Under the Quality First program, the CWB delivers what we believe to be the best product and service in North America."

– **John Miller,** President
Miller Milling, Virginia

Be world class

Demonstrate an uncompromising commitment to excellence.

In its ongoing pursuit of excellence, the CWB actively participates in many facets of the western Canadian grain industry. This has resulted in creative partnerships such as a program to provide U.S. customers with consistent, high-quality wheat, a world-class agriculture outlook conference and a high-profile Japanese baking competition.

OPPOSITE PAGE (LEFT TO RIGHT)

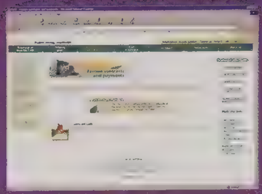
Canada's premier, an
the CWB's 2nd annu
as part of the Car

Mark Schell, Director of Operations and Renée Olson, Assistan

"We're very proud to have met the standards that the CWB sets for the Quality First awards. It's a great honour for us and for the farmers who market their grain through our facility."

Mark Schell – Antelope, Saskatchewan

"Farmers told us that they value the choice and the flexibility that payment options provide."
– **Ken Ritter,** CWB Chair



Embrace innovation and change

Create and implement new and better solutions from winning ideas.

A successful organization never stops searching for innovative solutions. At the CWB, finding new ways to serve farmers more effectively is a constant goal, whether it's introducing e-contracting for farmers, developing new pricing choices or improving transportation options.

OPPOSITE PAGE (LEFT TO RIGHT): [illegible] in 2001 [illegible]

"I used the CWB's Producer Payment Options to take advantage of some good prices that I saw in the spring of 2001. It's great to have the choice between pricing my crop on my own and selling through the pool accounts.

Terry Schullman – Swan River, Manitoba

A message from the Chair of the board of directors and the President/CEO

The farmers of Western Canada are to be congratulated for the wheat and barley crops they produced in 2001 despite weather conditions that were less than ideal, to say the least. Of the many reasons why Prairie wheat and barley are viewed as standards of excellence the world over, none is more significant than farmers' ability to produce and deliver high quality crops, even in the face of very trying circumstances. With hindsight, of course, 2001 could have been much worse… the summer and fall of 2002, if nothing else, have taught us as much. But it was still a year when significant parts of the Prairies went without rain for several months.

There are significant accomplishments – as far as our marketing program is concerned – that warrant special mention. First of all, our export target of 16 million tonnes was met. Secondly, we expanded our market share among buyers of high quality grain. Lastly, we reduced durum inventories significantly.

These were our achievements on the field, so to speak. Off the field, there were many important developments as well. The Office of the Auditor General (OAG) completed and presented its report on the CWB's operations. While it observed what were termed "significant deficiencies" in areas like planning for the long-term future of the organization and how we report on the CWB's performance, the OAG arrived at some conclusions that farmers should find reassuring. Specifically, it said that:

President and CEO Greg Arason (left) with Chair Ken Ritter

- "the CWB has a solid reputation as a strong and capable marketer of high-quality grains. CWB marketers are viewed as tough negotiators on price."
- "(the) audit found that the CWB calculates the total net pooled returns to farmers in accordance with the requirements of the CWB Act and the CWB's price-pooling policy (…) and that (…) all revenues from the sale of grain, less operating costs were properly distributed to farmers."
- "the resources of the corporation were managed economically and efficiently and its operations were carried out effectively."

We substantially increased the number of payment options available to farmers. Fixed price and basis payment contracts were extended to all classes of wheat and, late in the spring of 2002, a Fixed Price Contract for durum was introduced. The 2001-02 crop year saw the introduction of the Early Payment Option (EPO) as well as a continuation of the Guaranteed Delivery Contract for feed barley. At the end of the year, the EPO was expanded to include all classes of wheat (excluding durum).

A major milestone was achieved when we reached an agreement in principle with the various members of the Western Grain Elevator Association and the Inland Terminal Association on issues related to grain handling and transportation. Along with other commercial agreements negotiated with the major railways, this agreement generated substantial system savings in 2001-02 that are being passed along to farmers in the form of higher returns in each of the pool accounts.

The CWB emerged from the latest U.S. trade challenge with ongoing access to the American market. Although the North Dakota Wheat Commission had requested tariffs and quotas on imports of wheat from Canada, no trade measures were announced at the time of the U.S. Trade Representative's report in mid-February. Further challenges, however, were threatened in the report itself, including antidumping and countervail duties. As this annual report goes to print, we are already in the midst of further trade harassment from our American neighbours. We will fight these accusations as we have fought all the others and we remain confident that facts will bear out that western Canadian farmers and their marketing agent are fair traders.

We are proud of the work that was done in 2001-02. As our management team prepares to renew itself with a new president and CEO and five newly-elected directors at the end of 2002, we are confident that the CWB will be up to the challenges that lie ahead.

Ken Ritter

KEN RITTER
Chair, board of directors

GArason

GREG ARASON
President and Chief Executive Officer

CWB performance highlights

FARMERS

STRATEGIC GOAL	To serve farmers' business needs while significantly increasing farmers' support for and trust in the CWB.
INITIATIVES • Develop and launch a pilot Early Payment Option (EPO). • Develop and implement the CWB's e-business strategy. • Review the CWB's grain delivery policy. • Enhance the CWB's relations with the media. • CWB issue profiling.	**RESULTS** • Contracted CWRW EPO volumes of 9 342 tonnes. • Contracted CWSWS EPO volumes of 1 966 tonnes. • EPO expanded to all classes of wheat (excluding durum) in 2002-03. • Launch of the re-designed Web site and e-contracting on September 3, 2002. • Changes resulting from Grain Policy Review were implemented. These included replacing remaining acreage-based delivery calls with contract calls, an increase in the minimum delivery provision to 45 tonnes and age of majority requirements on Permit Applications. • Meetings with editorial boards of major newspapers have taken place. • Four issue-profiling campaigns were launched: transportation savings, the Auditor General's report, enhancements to the Producer Payment Options and Canada-U.S. trade relations.

MANDATE

STRATEGIC GOAL	To strengthen the long-term CWB mandate at home and its support /acceptability in international trade.
INITIATIVES • Develop more effective relationships with governments. • Advance comprehensive trade strategy.	**RESULTS** • Government relations strategy approved in May 2002. • CWB views and position continue to be carried forward by Government of Canada's trade negotiators at the World Trade Organization and in other bilateral and multilateral forums.

CUSTOMER

STRATEGIC GOAL	To attract, develop and retain markets by delivering quality products and service to customers worldwide.
INITIATIVES • Continue to implement the CWB biotechnology strategy. • Complete a new long-term grain production and trade forecast for 2005-06 and 2010-11. • Address primary/export grading standards and interior/terminal blending issues.	**RESULTS** • Establishment of the Canadian Grain Industry Working Group in December 2001. • Release of the study entitled "Agronomic Assessment of RoundUp Ready Wheat" on June 28, 2002. • Development of a detailed set of conditions for the entry of GM wheat into commercial production. • Efforts to ensure that domestic and international regulations do not adversely affect farmer returns. • Completion of a new long-term grain production and trade forecast. • Creation of a CGC/CWB Quality Assurance Group to evaluate/review grade specifications, blending/bulking issues, e-grading and enhanced tracking of quality data. • Initiation of a CWB/CGC managed project to evaluate the suitability of using improved technology to manage falling number concerns.

EMPLOYEES/CORPORATE

STRATEGIC GOAL	To achieve excellence in the provision of human resource, financial, information technology and other corporate programs and services that support or advance the business of the CWB.
INITIATIVES • Information Technology Services renewal. • Action plan arising from employee survey results. • Completing our comprehensive planning process. • Develop and implement a comprehensive human resource planning strategy.	**RESULTS** • Approval of an Information Technology renewal program in May 2001. • Reports on internal communication and employee compensation have been completed. • A five-year long-term plan was completed and approved by the board of directors in April 2002; a formal timeline and schedule of the planning process has been established for 2002-03. • Approval of a concept paper on succession planning and leadership development.

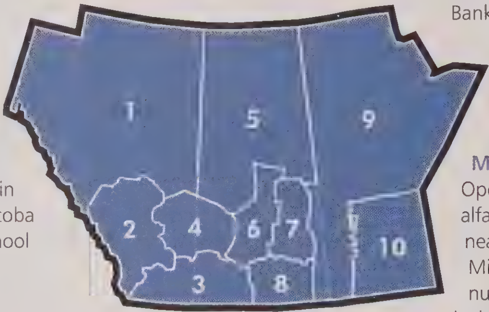
Farmer-run board of directors

The CWB board of directors consists of 10 farmer-elected members and five federal government appointees (there was one vacancy among appointed directors at the end of the 2001-02 crop year). This new governance structure has been in existence since 1998. It places control of the CWB firmly in farmers' hands and ensures that the CWB is accountable to farmers for everything it does.

ART MACKLIN (District 1):
Operates a family grain and cattle farm near Grande Prairie, Alberta. Active in church and community, he is a past president of the National Farmers Union and served as chair of the former CWB Advisory Committee.

JAMES CHATENAY (District 2):
Operates a family farm near Penhold, Alberta. A graduate of Olds Agricultural College, he served six years as director of the Alberta Charolais Association.

GREG ARASON, CWB President and Chief Executive Officer (Appointed):
Involved in the Prairie grain industry for more than 30 years. He is a former CEO of Manitoba Pool Elevators and has served as a director with many organizations in the agri-food sector. He was trained in agriculture at the University of Manitoba and in management at the Banff School of Advanced Management.



LARRY HILL (District 3):
Farms near Swift Current, Saskatchewan. A graduate of Agricultural Engineering and Farm Business Management at the University of Saskatchewan, he has worked for Saskatchewan Agriculture.

KEN RITTER, CWB Chair (District 4):
Operates a family farm near Kindersley, Saskatchewan. He has practiced law and taught school in both Canada and Australia. He has been the chair of the CWB's board of directors since its inception.

BONNIE DUPONT (Appointed):
Group Vice-President, Corporate Resources, at Calgary's Enbridge Inc. She has expertise in energy transportation and grain handling and has held senior positions with Alberta Wheat Pool and Saskatchewan Wheat Pool. She holds a Bachelor of Social Work from the University of Regina with majors in Program Administration and Evaluation Psychology, and a Master's in Human Resources Management from the University of Calgary.

JOHN M. CLAIR (District 5):
Senior partner in a family farm producing wheat, canola, peas and barley near Radisson, Saskatchewan. Currently, he is vice-president of the Saskatchewan Soil Conservation Association. He served on the CWB's Advisory Committee for eight years prior to being elected as a director.

IAN MCCREARY (District 6):
Runs a mixed family farm near Bladworth, Saskatchewan. He holds a Master's degree in Agricultural Economics and has previously worked at the CWB as a marketing manager and policy analyst. Ian's international experience also includes managing a pilot project on food aid and food markets with the Canadian Foodgrains Bank.

EDWARD ZINGER (Appointed):
Worked for the Bank of Montreal in Western Canada and Toronto for more than 39 years. Ed has extensive experience in Corporate, Government and Investment Banking. He is a Fellow of the Institute of Canadian Bankers and a graduate of the Senior Executive Program of the Banff School of Advanced Management.

MICHEAL HALYK (District 7):
Operates a grain, oilseed, pulse, alfalfa, seed and livestock operation near Melville, Saskatchewan. Micheal has been involved in numerous agricultural policy groups, including the former CWB Advisory Committee. Over the course of his professional career, he has gained specialized certificates in survey work, farm accounting, livestock genetics and seed husbandry.

ROD FLAMAN (District 8):
Farms with his wife Jeanne just south of the Qu'Appelle Valley near Edenwold, Saskatchewan. Their farm, which produces a variety of field and horticultural crops, is awaiting organic certification. Rod obtained his Bachelor of Engineering from the University of Saskatchewan. He is a founding director of Terminal 22 at Belcarres, Saskatchewan and has served on the executive of both the Saskatchewan Fruit Growers Association (president) and the Saskatchewan Association of Horticultural Industries.

BILL NICHOLSON (District 9):
Operates a grain farm near Shoal Lake, Manitoba. Bill served on the former CWB Advisory Committee and was a Manitoba Pool delegate. He has a degree in Agricultural Engineering, has worked in the farm machinery industry and currently serves as a credit union board president.

Photo taken at October 16, 2002 board of directors meeting

Standing, *left to right*: Wilfred (Butch) Harder, Art Macklin, Larry Hill, Micheal Halyk, Ian McCreary, Ross L. Keith, Bill Nicholson, Edward Zinger

Seated, *left to right:* John M. Clair, Rod Flaman, Ken Ritter, Greg Arason, Bonnie DuPont

Missing from photo: James Chatenay

WILFRED (BUTCH) HARDER (District 10): Operates farms near Lowe Farm and Headingley, Manitoba. He also served on the former CWB Advisory Committee and as a director with Manitoba Pool Elevators and the Canadian Co-operative Association. He is also a past director of Xcan Grain and Western Co-op Fertilizer.

ROSS L. KEITH (Appointed): President of the Nicor Group property development company and former partner in the Regina law firm of MacLean-Keith. He has degrees from the University of Regina in Arts, Commerce and Law. Ross is the president of a third-generation family farming operation in southern Saskatchewan.

Board of directors update

Several changes to the composition of the board of directors have occurred since the end of the 2001-02 crop year

- John Clair, elected director for District 5, retired at the end of his four-year mandate.
- Allen Oberg, who runs a grain and cattle operation at Forestburg, Alberta, was elected in the fall of 2002 as the director in District 5
- In District 7, Dwayne Anderson was elected. Dwayne was born, raised and currently farms in the Fosstown/Rose Valley area of Saskatchewan
- Greg Arason retired from his position as President/CEO, effective December 31, 2002. Adrian Measner, the CWB's Executive Vice-President of Marketing, was hired to replace h...

Corporate governance

COMPOSITION

Comprised of 15 directors, 10 of whom are elected by the farmers of Western Canada, the board of directors of the CWB has been in place since 1998. The farmer-elected representatives hold the majority of seats on the CWB's board of directors. They are mandated to represent farmers' interests and bring to the board table extensive experience in production agriculture, marketing of agricultural commodities, management of grassroots farm organizations and agri-business management. The elected directors represent 10 electoral districts across Western Canada. The Canadian Wheat Board Act requires elections to be held in half of the 10 districts every two years, resulting in directors serving four-year terms. In the 2002 round of elections, farmers cast ballots in Districts 1, 3, 5, 7 and 9. The 2004 elections will see elections in Districts 2, 4, 6, 8 and 10.

The remaining five directors are appointed by the federal government. They include the President and CEO who leads the senior management team and is accountable to the board of directors for the CWB's performance. The President/CEO is remunerated according to compensation levels set by the board. The other appointed directors have three-year terms and bring a variety of business expertise to the table. In 2001-02, Edward J. Zinger was named to fill a vacancy created when David Hilton reached the end of his mandate. With close to 40 years of experience in the banking industry, Mr. Zinger brings considerable experience in finance, including investment banking and lending in the natural resource sector. Betty-Ann Heggie resigned from the board of directors in December 2001 and no replacement had been named as of the end of the 2001-02 crop year.

MANDATE

Through their 10 elected representatives on the CWB's board of directors, western Canadian farmers are empowered to set direction and provide leadership to their grain marketing organization. Farmer control is a crucial component of the CWB's governance structure and is reflected in both the CWB's mission and vision statements.

The board of directors is specifically responsible for establishing strategic direction, reviewing and approving strategic plans, budgets, financial statements, the annual business plan and the borrowing plan. The board also ensures management has appropriate systems in place to manage risk, maintain integrity of financial controls and oversee information services. It has full governing powers and responsibilities and is vested with all the powers of the corporation, including oversight of management.

RESULTS

Continuous efforts are underway to improve the effectiveness of the board of directors. Now in its fourth year of operation, the board is working at several levels to demonstrate its commitment to sound governance principles. As part of this commitment to good governance, as well as its comprehensive response to the Auditor General's report, the board of directors achieved the following results in the 2002-03 crop year:

- **Response to OAG recommendations on governance:** The board of directors undertook a comprehensive process to address the issues raised in the Auditor General's report and developed an action plan, which included a restructuring of the board of directors' committees and a focus on performance management.
- **Board and Committee evaluation:** A comprehensive self-evaluation was undertaken using an external governance expert to compile the results and provide recommendations. The board reviewed the recommendations in combination with those contained in the OAG's report.
- **CEO search:** With the impending retirement of Greg Arason on December 31, 2002, the board of directors established an ad hoc committee to lead the process for selecting a new President/CEO. The committee assisted the board of directors in identifying a successor and his name was forwarded for approval to the federal government.
- **Election process:** The board of directors approved recommendations to improve the director election process, which included recommended changes to the election regulations (these were submitted to Ottawa and resulted in changes to the regulations). The Election Period Code of Conduct was reviewed and strengthened.
- **Director qualifications:** A list of director qualifications was developed, including specific skills, experience, and strengths. The board recommended to government the desired skill sets for the vacant director positions.
- **Pension redesign:** The board of directors oversaw the redesign of the employee pension plan and approved a pension governance model.
- **Conflict of interest:** The board of directors approved a mechanism for directors to declare on an annual basis any potential conflicts of interest.
- **Performance evaluation:** The annual performance evaluation for the President and CEO was completed.

- **Director compensation policy:** An audit of director expenses was completed by the external auditor; the board of directors' compensation policy was reviewed, clarified and strengthened.
- **Succession planning:** A comprehensive succession management process was initiated and a framework approved.
- **Political donations policy:** The board of directors reviewed and amended the political donations policy to disallow the use of corporate funds for donations to political parties or their representatives.
- **Orientation for new directors:** Thorough orientation sessions for two new directors were provided.

Committee structure for 2001-02

The board of directors structure includes four standing committees and several ad-hoc committees, with terms of reference reviewed annually.

AUDIT AND FINANCE COMMITTEE

Mandate: This committee ensures accounting and financial reporting systems provide accurate and timely information, including effective internal controls. It facilitates the conduct of an annual audit, reviews annual financial statements and accounting practices, and reviews financial risk policies, plans and proposals.

Members: David Hilton (chair from August 2001 until December 2001), Larry Hill (chair from February 2002 to present), James Chatenay, John Clair, Ed Zinger

2001-02 accomplishments:

- Oversaw the comprehensive audit by the Office of the Auditor General and the process for response.
- Recommended approval of the financial statements and notes for the fiscal year ended July 31, 2001.
- Reviewed the 2002-03 corporate and business plans and budget, recommending approval (together with the Strategic Issues Committee).
- Recommended approval of changes to the Financial Risk Management policies.
- Oversaw tendering of external audit responsibilities and recommended continued use of the firm Deloitte & Touche.
- Reviewed financial risk management activities.

GOVERNANCE AND MANAGEMENT RESOURCES COMMITTEE

Mandate: This committee provides a focus on governance to enhance board and organizational effectiveness. It assists the board in fulfilling its obligations related to human resource and compensation matters.

Members: Betty-Ann Heggie (co-chair from August 2001 until December 2001), Art Macklin (co-chair from August 2001 until February 2002, member at present), Bonnie DuPont (chair February 2002 to present), Ken Ritter

2001-02 accomplishments:

- Undertook a thorough governance review and developed a response to the governance issues raised by the Auditor General.
- Oversaw the process for review of the director elections and recommended approval of the Election Period Code of Conduct.
- Completed the annual review of committee terms of reference.
- Oversaw the annual evaluation of the board, its committees and the CEO.
- Approved a framework for the succession management process for CEO and Senior Management.
- Oversaw the initiation of a new CWB pension plan and recommended a pension governance structure.
- Recommended approval of a list of director qualifications.
- Recommended approval of amendments to the directors' compensation policy.

STRATEGIC ISSUES COMMITTEE

Mandate: This committee ensures that strategic and policy issues are identified and that priorities, time frames and processes to address these issues are recommended. It coordinates the board's input to the CWB strategic planning process.

Members: Ian McCreary (chair), Greg Arason, Rod Flaman, Bill Nicholson

2001-02 accomplishments:

- Oversaw development of the long-term plan and recommended approval.
- Reviewed the 2002-03 corporate and business plans and budget and recommended approval (together with the Audit and Finance Committee).
- Recommended approval of the CWB Statement of Core Values.
- Recommended approval of pricing enhancements and options to be implemented in 2002-03.
- Reviewed and recommended approval of amendments to the grain delivery policy.
- Provided direction for the response to the federal government's Agricultural Policy Framework (together with the Farmer Relations Committee).
- Recommended approval of feed barley origination options.
- Oversaw the preparation of the submission to the Canadian Grain Commission review.

FARMER RELATIONS COMMITTEE

Mandate: This committee assists the board by overseeing the development of strategies and policies for relations with farmers and the government.

Members: Micheal Halyk (chair), Wilfred Harder, Ross Keith

2001-02 accomplishments:

- Recommended approval of a proposal on corporate issue profiling.
- Reviewed and gave direction for the annual report.
- Gave direction for corporate accountability meetings and reviewed results of the meetings.
- Provided direction for the response to the federal government's Agricultural Policy Framework (together with the Strategic Issues Committee).
- Oversaw development of a government relations strategy.
- Recommended approval of guidelines for director attendance at industry events.

AD HOC COMMITTEES

Transportation
(McCreary-chair, Arason, Halyk, Keith, Macklin, Ritter): This committee provided strategic direction to help achieve a new commercialized transportation environment and was disbanded in December 2001.

Trade
(Hill-chair, Flaman, Hilton, Keith, Macklin, McCreary, Nicholson): This committee recommends strategies on trade-related issues that could affect the ability of the CWB to fulfill its mandate.

Benchmarking
(Clair-chair, Chatenay, DuPont, Hilton, Hill, McCreary, Nicholson): This committee assists in developing appropriate benchmarks for ongoing performance measurement of the core grain marketing function.

CEO Search Committee
(Ritter-chair, DuPont, Hill, Keith, Macklin, McCreary): This committee assisted the board in the recruitment and selection of a new President and Chief Executive Officer and was disbanded in November 2002.

BOARD OF DIRECTORS

Director	District	Remuneration: Retainer	Per diems	Total	Attendance: Board Meetings	Committee Meetings	Industry Meetings
Macklin, Art	1	$ 21,499.99	$ 41,750.00	$ 63,200.00[3]	12	54	33
Chatenay, James	2	20,000.00	28,750.00	48,750.00	11	13	19
Hill, Larry	3	26,333.33	36,800.00	63,133.33[3]	12	43	34
Ritter, Ken (chair)	4	60,000.00	44,550.00	104,550.00[4]	12	66	40
Clair, John	5	23,999.99	30,700.00	54,699.99	12	24	18
McCreary, Ian	6	25,666.66	34,050.00	59,716.66	12	52	29
Halyk, Micheal	7	24,000.00	40,250.00	64,250.00[3]	12	28	45
Flaman, Rod	8	20,000.00	28,850.00	48,850.00	12	23	28
Nicholson, Bill	9	20,000.00	30,300.00	50,300.00	11	31	40
Harder, Wilfred	10	20,000.00	29,250.00	49,250.00	11	14	24
Arason, Greg (CEO)	A	NA	NA	NA	11	NA	NA
DuPont, Bonnie	A	21,666.67	16,250.00	37,916.67	11	37	1
Heggie, Betty-Ann[1]	A	9,166.66	3,750.00	12,916.66	4	5	0
Hilton, David[1]	A	9,999.99	8,750.00	18,749.99	4	15	4
Keith, Ross	A	19,999.99	20,250.00	40,249.99	11	27	6
Zinger, Ed[2]	A	10,000.00	10,500.00	20,500.00	5	5	5
TOTAL		$ 332,333.28	$ 404,751.00	$ 737,083.28			

A = Appointed Director
[1] August to December 2001
[2] February to July 2002
[3] Remuneration limit exceeded due to committee chairmanship
[4] Remuneration limit excluded due to additional duties assumed at the request of the board of directors

Directors are paid an annual retainer and per diem allowances. The board chair receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $4,000. A per diem of $500 per full regular meeting day is paid to each member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for directors and $100,000 for the board chair. This limit does not apply to the retainer for committee chairmanship, the communication allowance or any other item that the board specifically excludes. The table above includes some remuneration that was incurred in the previous crop year, but submitted during 2001-02.

Senior management

The Senior Management Team works in partnership with the board of directors to provide leadership and vision for the CWB, based on the cornerstone of obtaining the best returns for farmers. Senior management is comprised of the Executive Team, the Vice-Presidents, General Counsel, Corporate Secretary and the Director of Corporate Audit Services.

There have been a number of changes since the beginning of the 2001-02 crop year, including one retirement and the hiring of a number of senior managers to replace individuals who left during the 2000-01 crop year.

THE EXECUTIVE TEAM

(above) Standing, *left to right:*
Earl Geddes, VP Farmer Relations;
Adrian Measner, Executive VP Marketing;
Laurel Repski, VP Human Resources

Seated, *left to right:* **Margaret Redmond,** Executive VP Corporate Affairs;
Greg Arason, President and CEO;
Gord Menzie, Executive VP Finance

SENIOR MANAGEMENT

(right) Standing, *left to right:* **Bill Spafford,** VP Sales and Market Development;
Larry Nentwig, VP Finance; **Graham Paul,** VP Information Technology Services;
Victor Jarjour, VP Strategic Planning & Policy (as of February 2002); **Deanna Allen,** VP Communications & Public Relations (as of January 2002); **Brita Chell,** VP Accounting;
Wendi Thiessen, Treasurer (as of September 2002); **Barry Horan,** Director Corporate Audit Services; **Ward Weisensel,** VP Transportation and Country Operations

Seated, *left to right:*
Jim McLandress, General Counsel;
Deborah Harri, Corporate Secretary;
Brian White, VP Commodity Analysis and Risk Management

SENIOR MANAGEMENT COMPENSATION

Senior Management Compensation	2001-2002 Actual	2000-2001 Actual
Salaries	$ 2,546,263	2,106,702
Benefits	1,217,273	1,004,460
Total	$ 3,763,536	$ 3,111,162

Senior management is compensated in accordance with policies approved by the board of directors. The noted increases are as a result of staffing several key senior management positions that had been vacated in the 2000-01 crop year. This impacted both salaries and benefits for this group.

In keeping with the CWB Information Policy and in a desire to be open and accountable to farmers, the following table sets forth compensation earned by the President and Chief Executive Officer, as well as the four other highest-paid senior officers for the year ended July 31, 2002.

SUMMARY COMPENSATION TABLE, 2001-02

	Annual Compensation	
Name and Principal Position	Salary	All Other Compensation[1]
Greg S. Arason President & Chief Executive Officer	$ 250,000	$ –
Adrian C. Measner Executive Vice-President, Marketing	217,350	–
Gordon P. Menzie Executive Vice-President, Finance and Treasurer	186,840	–
William W. Spafford Vice-President, Sales and Marketing	179,313	–
Margaret D. Redmond Executive Vice-President, Corporate Affairs	170,000	–

Notes:

[1] The CWB has no additional compensation plans beyond base salary. The value of perquisites for each senior officer did not exceed the lesser of $50,000 or 10% of total annual salary.

Management discussion and analysis

Because the CWB is ultimately accountable to farmers for everything it does, an analysis and discussion of the CWB's performance over the course of the 2001-02 crop year must begin with an assessment of the crop and the four pool accounts (wheat, durum, feed barley and designated barley).

Overall, the 2001-02 crop was of very high quality. Dry conditions at harvest time, combined with drought in many areas over the course of the growing season, meant that crops were generally harvested in good condition and disease problems were kept in check. The exception was southeastern Manitoba where several areas received excessive moisture throughout June and July, resulting in crops that either drowned or were downgraded due to fusarium.

Harvested volumes in 2001-02 were much lower than normal. Total production of the six major grains in Western Canada was 38.5 million tonnes compared to a five-year average of 46.4 million tonnes. Drought was by far the greatest contributing factor with huge areas of Alberta and Saskatchewan going without rain for most of the growing season. In some cases – for example, in the area around Lethbridge – this was the second consecutive year of drought and the impacts were particularly hard on farmers and their communities.

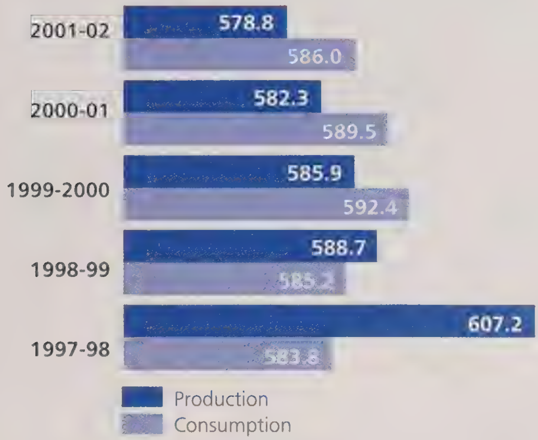
Crops in some of the other major exporting nations were also affected by unfavourable weather conditions. This was the case in the European Union where wheat production dropped from an average of 98.3 million tonnes to 91.7 million tonnes. Wheat output declined in the U.S. as well with total production declining from an average of 62.7 million tonnes to 53.3 million tonnes in 2001. On the other hand, Australia experienced excellent growing conditions and brought in a crop of over 24 million tonnes while the countries of Eastern Europe and the former Soviet Union saw their total wheat production climb 22 million tonnes above the five-year average to 127 million tonnes.

GLOSSARY OF FINANCIAL TERMS

This glossary is provided to assist in the comprehension of the CWB's management discussion and analysis.

Cross-currency interest rate swap	a contractual agreement for specified parties to exchange principal, fixed and floating interest rate payments in different currencies. Notional amounts upon which the interest rate payments are based are not exchanged.
Currency swap	a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.
Derivative financial instrument	a contract or security that obtains much of its value from price movements in a related or underlying security, future or other instrument or index.
Fair value	an estimate of the amount of consideration that would be agreed upon between two arm's length parties to buy or sell a financial instrument at a point in time.
Foreign exchange forward	an agreement to buy and sell currency is simultaneously purchased in the spot market and sold in the forward market or vice-versa.

GLOBAL WHEAT SUPPLY AND DEMAND
(million tonnes)



Source: United States Department of Agriculture

This resulted in a decrease in global wheat production to 578.8 million tonnes in 2001-02, meaning that for the fourth time in the last five years, consumption of wheat worldwide exceeded production. Accordingly, global wheat stocks fell as well, going from a level of 168.7 million tonnes at the start to 161.5 million tonnes at the end of the crop year. This reduction in stocks is even more dramatic in relation to previous levels which rose to as much as 178.3 million tonnes in 1998-99.

The CWB set an export target of 16 million tonnes of wheat, durum and barley at the start of the 2001-02 crop year. This was approximately two million tonnes less than the previous year's target and simply reflected the smaller crop that farmers harvested. The target was achieved by the end of the crop year. The total value of CWB sales was $4.3 billion. In 2000-01, total revenue was slightly less at $4.2 billion.

Futures contract	a future commitment to purchase or deliver a commodity or financial instrument on a specified future date at a specified price. The futures contract is an obligation between the corporation and the organized exchange upon which the contract is traded.
Hedge	a risk management technique used to decrease the risk of adverse commodity price, interest rate or foreign exchange movements by establishing offsetting or risk-mitigating positions intended to reduce or minimize the corporation's exposure.
Liquidity	having sufficient funds available to meet corporate obligations in a timely manner.
Notional amounts	a reference amount upon which payments for derivative financial instruments are based.
Option	a contract that grants the right, but not the obligation, to buy or sell a commodity or financial instrument at a specified price at a specified point in time during a specified period.
Risk management	the application of financial analysis and diverse financial instruments to the control and, typically, the reduction of selected types of risk.
Single currency interest rate swap	a contractual agreement for specified parties to exchange fixed interest rate payments for floating interest rate payments based on a notional value in a single currency. Notional amounts upon which the interest rate payments are based are not exchanged.
Swap	a contractual agreement to exchange a stream of periodic payments with a counterparty.

The wheat pool

		2001-02		2000-01
Receipts (tonnes)		**13 330 652**		13 960 639
Revenue	**$**	**218.68**	$	195.97
Operating Costs				
Direct costs		**3.61**		5.98
Administrative expenses		**2.68**		3.26
Grain industry organizations		**0.08**		0.08
Net interest earnings		**(5.23)**		(4.18)
		1.14		5.14
Earnings for distribution	**$**	**217.54**	$	190.83

THE CROP

High quality and reduced yields characterized much of the 2001-02 wheat crop. About 90 per cent of the crop graded either No. 1 or 2 and the average protein content was 14.7 per cent, more than a full percentage point higher than the long-term average of 13.6 per cent. On the other hand, total production was down by about two million tonnes with a total spring wheat crop of 15.7 million tonnes. Area planted to spring wheat increased by two per cent to just over 20 million acres, slightly above what was planted the previous year.

EARNINGS DISTRIBUTED TO FARMERS
WHEAT – 2001-02

THE MARKETING ENVIRONMENT

Clearly, the most significant challenge with the 2001-02 spring wheat crop was to maximize farmer returns in a marketplace where high quality wheat was in ample supply. Western Canada was not alone in producing a good quality crop – the U.S. also had a good quality spring wheat crop – and the market responded accordingly by reducing the premiums paid for high quality wheat. Protein premiums in 2001-02, for example, were only one-half of what they were the previous year.

THE STRATEGY

CWB sales staff worked hard to diversify and expand the number of customers willing to purchase the high quality wheat that was produced by Prairie farmers. This included finding new customers, expanding market share where possible and encouraging all customers to buy higher quality wheat than they traditionally would. Efforts were also undertaken to take advantage of protein premiums early in the crop year before the full pressure of the unusually high supplies of high quality wheat was felt in the market.

THE DELIVERIES

Delivery opportunities for farmers were evenly distributed throughout the crop year. About 50 per cent of the higher grades of Canadian Western Red Spring (CWRS) wheat signed up under contract was called into the system by December 31, 2001. This is higher than the levels called in the previous two years. All of the contracted tonnage of lower grades of CWRS and most of the minor classes of wheat were called by the end of December.

THE RESULTS

The major customer for wheat sold through the CWB was again our own domestic market. In 2001-02, approximately two in 10 bushels of grain (including wheat, durum and barley) were processed domestically. This was up from 10 years ago when one in 10 bushels was processed in Canada.

Japan, Iran and the U.S. – the CWB's largest export customers – bought slightly over one million tonnes of wheat each. Mexico was close behind with purchases of more than 800 000 tonnes. Exports to Mexico have grown from approximately half a million tonnes of Canadian wheat annually a decade ago to 871 000 tonnes in 2001-02.

Despite a smaller pool size, total revenue on wheat sales increased $179 million, or seven per cent compared to 2000-01, for a total of $2.9 billion. The impact of the smaller volume pool on overall revenue was more than offset by strengthening global prices resulting from reduced production and a high grade and high protein crop. The average revenue generated on wheat sales was up from the prior year by $22.71 per tonne, or an increase of 12 per cent, to $218.68.

DIRECT COSTS

Direct costs decreased $2.37 per tonne to $3.61, due primarily to lower country elevator financing, reduced demurrage costs and lower freight costs.

Substantially lower interest rates and marginally lower average stocks throughout the period resulted in a 45 cent per tonne decline in country elevator financing.

Several events in 2000-01 served to drive up demurrage costs, including delays due to poor weather and delays caused by a new railcar allocation program introduced by the railways. Similar issues did not arise in 2001-02, permitting better movement of grain to terminals. As a result, there was a reduction in demurrage of 58 cents per tonne, to 15 cents, while despatch earnings remained consistent at 36 cents per tonne.

Freight to terminals was 61 cents per tonne lower in 2001-02, reflecting lower shipments to Vancouver from the eastern Prairie catchment area and less movement through Prince Rupert as a result of declines in overall grain volumes.

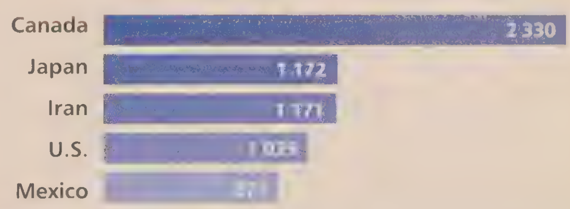
Movement to eastern export position is the cost of moving grain east of Thunder Bay less the Freight Adjustment Factor (FAF) recovery. Eastern movement costs remained virtually unchanged from 2000-01 at $3.11 per tonne. However, the FAF recovery has increased $6.5 million or 65 cents per tonne to $3.70. This was due to an increase in FAF rates in anticipation of a smaller crop combined with proportionally higher than expected eastern deliveries.

DISTRIBUTION OF EARNINGS

The average sales proceeds available for distribution increased 14 per cent or $26.71 per tonne to $217.54. Of the amounts returned to pool participants, 92 per cent was distributed by July 9 in the form of initial and adjustment payments.

Producer payment options, like the Fixed Price (FPC) and Basis Payment (BPC) contracts, constitute non-pool programs. Just over $32 million were transferred from the wheat pool to the producer payment option program. This amount represents the pool return on the specific grades and classes of wheat delivered to the wheat pool under the FPC and BPC. The payment option program in turn paid farmers for the wheat contracted under the FPC and the BPC.

LARGEST VOLUME WHEAT CUSTOMERS
(000 tonnes) 2001-02



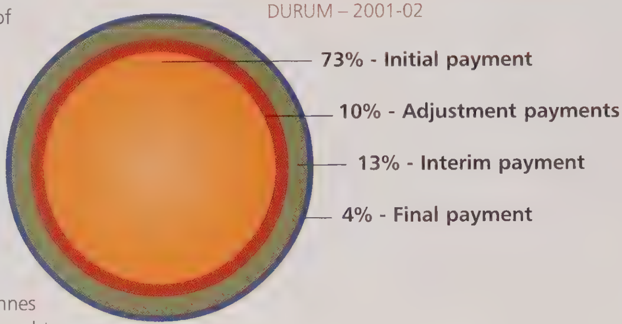
The durum pool

		2001-02		2000-01
Receipts (tonnes)		**3 246 369**		3 665 343
Revenue	**$**	**278.71**	$	264.61
Operating Costs				
Direct costs		**18.27**		22.84
Administrative expenses		**2.68**		3.26
Grain industry organizations		**0.08**		0.08
Net interest earnings		**(3.68)**		(2.21)
		17.35		23.97
Earnings for distribution	**$**	**261.36**	$	240.64

THE CROP

Drought in Western Canada dramatically reduced the size of the 2001-02 crop. Seeded acreage of 5.4 million acres yielded a crop of only three million tonnes. This translates into average yields of .6 tonne per acre or roughly 22 bushels per acre. As with spring wheat, the grade pattern for the durum crop was extraordinarily good, with 89 per cent grading No. 2 CWAD or better. This compares with the long-term average of 56 per cent.

EARNINGS DISTRIBUTED TO FARMERS
DURUM – 2001-02



THE MARKETING ENVIRONMENT

Global durum production fell by 2.5 million tonnes in 2001 to 31 million tonnes, mainly due to drought in Western Canada, but also as a result of lower acreage and reduced yields in both the European Union and the U.S. On the other hand, some of the minor durum exporters, like Syria and Australia, had good crops and increased their market share from 20 per cent in 2000-01 to 25 per cent in 2001-02. As well, some of the major importers in North Africa had better-than-normal crops in 2001. This enabled them to use more of their own stocks before entering the durum market. Western Canada came into the 2001-02 crop year with very large durum inventories of 2.87 million tonnes. To put the significance of these levels of stocks in perspective, total global durum trade typically hovers around 6.9 million tonnes.

THE STRATEGY

Although production was reduced by drought, large carry-in stocks meant that the CWB still had a great deal of durum to move in 2001-02. Decreased demand on the part of some of our traditional customers and a very high quality durum crop also reinforced the need to expand market share in markets for high quality durum such as Morocco, the U.S. and Venezuela.

THE DELIVERIES

Very early in the 2001-02 crop year, the CWB announced that it would be difficult to accept delivery of all of the durum that Prairie farmers had to offer on contract. This was primarily a function of the large carry-in stocks. Accordingly, acceptance levels on Series A and B delivery contracts for high quality durum (Nos.1 and 2 CWAD) were 60 and 50 per cent respectively while no Series C or D contracts were accepted. With most Series A contracts rolling over to the next series and 100 per cent acceptance on the lower grades of durum, close to 85 per cent of the total tonnage offered by farmers was ultimately accepted. As a result, total durum stocks both in commercial storage and on-farm decreased to 1.63 million tonnes from 2.87 million tonnes in the previous year.

THE RESULTS

Algeria continues to be the largest volume customer for western Canadian durum, even though it purchased 500 000 tonnes less than in the previous crop year. The U.S. was next largest, followed by Morocco, Tunisia and Italy. Canada's domestic industry was sixth, with purchases of just under 300 000 tonnes.

Total exports rebounded from last year's lower levels to come in at 3.6 million tonnes. At these levels, western Canadian farmers' market share was about 51 per cent of the global trade in durum.

Compared to 2000-01, the durum pool decreased by over 11 per cent, or about 420 000 tonnes. Revenue generated on durum sales also decreased by $65 million, or seven per cent, to $905 million.

DIRECT COSTS

Direct costs decreased $4.57 per tonne to $18.27, due primarily to lower country elevator financing, country storage and reduced eastern movement costs. An increase in terminal storage costs somewhat offset this decline.

Substantially lower interest rates and the shift of significant carry-over stocks from country elevators to terminal position resulted in a 98 cent per tonne decline in country elevator financing. Country storage costs also benefited from this movement of stocks, while terminal storage costs were 65 cents per tonne higher.

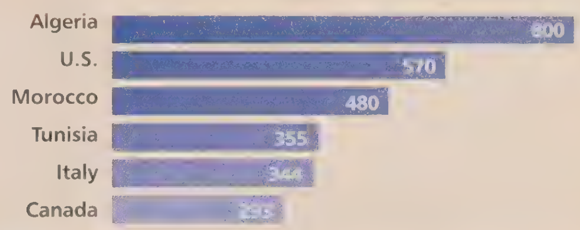
Eastern movement costs show a decline relative to 2000-01. This reflects both lower sales volume through the eastern ports in 2001-02 and the movement of durum inventory into eastern export position late in the 2000-01 crop year.

DISTRIBUTION OF EARNINGS

The average sales proceeds available for distribution increased nine per cent or $20.72 per tonne to $261.36. Of the amounts returned to pool participants, 83 per cent was distributed by July 9 in the form of initial and adjustment payments. A further 13 per cent, or $33.48 per tonne, was distributed as an interim payment on October 18.

LARGEST VOLUME DURUM CUSTOMERS

(000 tonnes) 2001-02



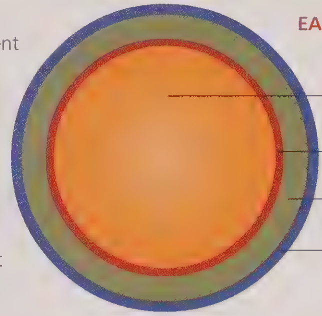
The feed barley pool

		2001-02		2000-01
Receipts (tonnes)		**54 373**		454 073
Revenue	**$**	**174.82**	$	139.13
Operating Costs				
Direct costs		**7.15**		8.26
Administrative expenses		**2.69**		3.32
Grain industry organizations		**0.08**		0.08
Net interest earnings		**(145.54)**		(14.11)
		(135.62)		(2.45)
Earnings for distribution	**$**	**310.44**	$	141.58
Less: Transferred to contingency fund		**130.85**		–
Earning distributed to pool participants	**$**	**179.59**	$	141.58

THE CROP

Barley acreage in 2001 was down eight per cent from the previous year's levels. In 2001-02, 10.8 million acres were sown to barley compared to 11.8 million in 2000-01.

Due to severe dryness in several important barley growing regions of Western Canada, production fell almost three million tonnes compared to the previous crop year to a total of 9.7 million tonnes. Very dry and hot harvest conditions, however, led to a smooth and early harvest.



THE MARKETING ENVIRONMENT

The domestic livestock industry uses approximately nine million tonnes of feed barley annually. With roughly 2.5 to 3.0 million tonnes typically marketed through the CWB either for export or to supply the domestic malting industry, it was clear, very early in the crop year, that supplies would be rationed through higher prices. The domestic feed market was the most attractive alternative in many regions throughout the year.

THE STRATEGY

Strong domestic prices for feed barley meant that many farmers decided to sell their feed barley into the domestic market rather than through the CWB to off-shore customers. For the barley delivered to the CWB, the strategy was simply to market these limited supplies to achieve the highest possible return, either in the offshore market or in the domestic market, depending on where and when the barley was delivered.

THE DELIVERIES

All feed barley offered by farmers and contracted for sale through the CWB was accepted for delivery. A guaranteed delivery contract for feed barley was offered at the start of 2001-02. As well, an open delivery call was issued at the end of the crop year, enabling farmers to deliver as much feed barley to the pool accounts as they wanted. Total farmer deliveries were 54 373 tonnes.

THE RESULTS

Over half of the feed barley pool was sold into the local domestic market in Western Canada. Foreign markets were Japan, the United Arab Emirates and the U.S. The total feed barley pool – as noted earlier – was small as a result of reduced supplies overall and a very strong domestic market. The 54 373 tonnes in the feed barley pool represented a decrease of over 350 000 tonnes compared to average annual receipts over the previous four-year period.

In July 2002, the CWB board of directors announced that, given the size of the feed barley pool, only a portion of interest earnings would be paid to farmers through the pool account. This was done to avoid distorting the price relationship between feed and designated barley. The remaining interest earnings were allocated to a contingency fund. The board of directors furthermore

committed to consulting with farmers on the use of the contingency fund. Consultations will be undertaken in the 2002-03 crop year.

Revenue generated on barley sales totaled $9.5 million, a decrease of $54 million or 85 per cent relative to 2000-01. Reduced acreage combined with severe dryness pushed volumes down while the resulting increase in domestic demand and offshore prices drove the pool return up 26 per cent over the prior year to $174.82 per tonne.

DIRECT COSTS

Direct costs in the feed barley pool decreased $1.11 per tonne to $7.15, due primarily to lower country elevator financing and storage, demurrage costs and freight to terminals. These reductions were partially offset by an increase in terminal storage costs.

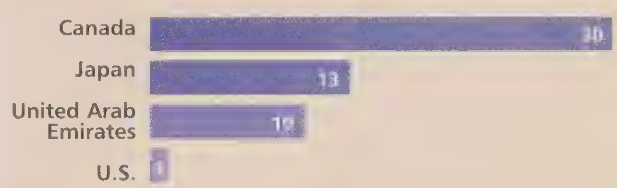
The substantial decline in stocks equated to decreased country elevator financing and storage. Few export sales during the year and more efficient grain movement led to the sharp decline in demurrage. A recovery of freight costs related to stock switches by grain companies resulted in net revenue for freight to terminals.

Total terminal storage costs tend to be fairly consistent from year to year as some level of stock is maintained at terminal position regardless of pool size. As a result, costs per tonne increase significantly in a year when deliveries are at very low levels as is the case in 2001-02.

DISTRIBUTION OF EARNINGS

Including the benefit of greater than $145 per tonne in net interest earnings, primarily related to previous years' credit sales, the average proceeds from the feed barley pool available for distribution amounted to $310.44 per tonne. Of this amount, the average return disbursed to farmers through the feed barley pool account was $179.59 per tonne. CWB initial and adjustment payments paid out 76 per cent of this total to farmers by July 9. A further 17 per cent, or $30 per tonne, was distributed as an interim payment on October 18. Remaining interest earnings of $7.1 million were transferred into a contingency fund.

LARGEST VOLUME FEED BARLEY CUSTOMERS
(000 tonnes) 2001-02



The designated barley pool

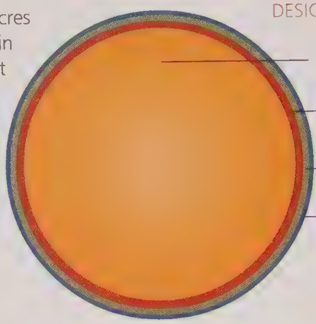
		2001-02		2000-01
Receipts (tonnes)		**2 205 058**		2 273 488
Revenue	$	**212.88**	$	201.75
Operating Costs				
Direct costs		**3.58**		2.81
Administrative expenses		**2.67**		3.26
Grain industry organizations		**0.13**		0.11
Net interest earnings		**(0.92)**		(1.03)
		5.46		5.15
Earnings for distribution	$	**207.42**	$	196.60

THE CROP

Barley acreage in 2001 was down eight per cent from the previous year's levels. In 2001-02, 10.8 million acres were planted to barley compared to 11.8 million in 2000-01. Of these acres, approximately 66 per cent were planted to malting-eligible varieties.

Because of severe dryness in several important barley growing regions of Western Canada, production fell almost three million tonnes compared to the previous crop year to a total of 9.7 million tonnes. Very dry and hot conditions generally resulted in high quality barley crops. However, this also created some quality challenges due to higher than average protein levels and heat-stressed, shrunken kernels. In some areas in Manitoba, excessive moisture and humidity over the course of the summer led to a high incidence of fusarium in barley crops.

EARNINGS DISTRIBUTED TO FARMERS
DESIGNATED BARLEY – 2001-02



THE MARKETING ENVIRONMENT

While local supply and demand conditions provided exceptional strength to the domestic feed barley market, the market for malting barley was under some pressure from global factors. Among these, a record Australian barley crop was the most notable. Of the 7.5 million tonnes of Australian barley that were harvested in 2001-02, two million tonnes were used domestically, leaving the remainder for export and carry-forward into the new crop year. Increased availability of Australian supplies was offset by reduced availability in Canada (because of drought) and in the European Union (because of harvest rains). As a result, prices rose marginally in 2001-02 compared to the previous year. In spite of a near-record Chinese import program, global trade fell due to good crops in Eastern Europe and the Commonwealth of Independent States and lower U.S. import demand.

THE STRATEGY

Malting barley sales were evenly spread throughout the year. Lower demand in the U.S. for six-row malting barley coincided with lower supplies and therefore did not affect the marketing strategy. There was increased buyer acceptance of AC Metcalfe, AC Kendall and CDC Stratus in two-row markets.

THE DELIVERIES

Two- and six-row designated barley deliveries were spread fairly evenly throughout the year. The drought-reduced 2001 crop and early concerns about potential dryness and reduced production in 2002 resulted in a smaller designated barley pool in the 2001-02 crop year. It was 2.2 million tonnes, about 68 000 tonnes less than the designated barley pool in 2000-01.

THE RESULTS

The CWB's most significant malting barley customer in 2001-02 was Canada, purchasing 1.15 million tonnes for both domestic consumption and export sales of processed malt – unchanged from the previous two years. In the last decade, Canadian malting capacity has grown by about 490 000 tonnes (bulk barley equivalent), or about 75 per cent, and growth has mainly occurred on the Prairies. The U.S. retained its status as the largest foreign customer for western Canadian malting barley with purchases of 452 000 tonnes. This was 100 000 less than the previous year. China again was in third spot, followed by two importers of significantly smaller volumes, South Africa and Colombia.

Revenue generated from the malting barley pool totaled $469 million, an increase of $11 million or 2 per cent relative to 2000-01. Reduced acreage combined with

dryness pushed volumes down slightly. However, prices increased only marginally as supplies in competing nations remained strong. This resulted in revenues of $212.88 per tonne compared to $201.75 in the previous year.

DIRECT COSTS

Direct costs in the designated barley pool rose 77 cents per tonne to $3.58, due primarily to higher country storage. This was offset somewhat by lower country elevator financing and terminal storage.

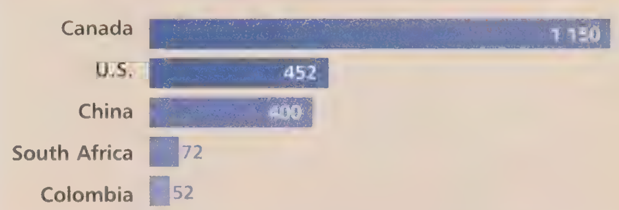
Drought and a strong domestic market for feed barley led to concerns of tightening supplies of malting barley among malting companies. These customers, anxious to secure adequate supplies, called malting barley into country position more rapidly than usual, resulting in increased country storage costs.

Although average country stock levels increased, financing costs declined due to the substantial decline in interest rates. Terminal storage showed a comparatively greater revenue balance, reflecting greater recovery of costs from customers who did not call forward their grain in a timely manner.

DISTRIBUTION OF EARNINGS

Average sales proceeds in the designated barley pool available for distribution increased six per cent, or $10.82 per tonne, to $207.42. Of the amounts returned to pool participants, 88 per cent was distributed to producers upon delivery in the form of initial payments.

LARGEST VOLUME DESIGNATED BARLEY CUSTOMERS
(000 tonnes) 2001-02



Operating costs

The four components of operating costs are direct costs, administrative expenses, grain industry organizations and net interest earnings. Direct costs have been addressed under each individual pool and are not discussed further under this section.

ADMINISTRATIVE EXPENSES

Administrative expenses have declined $4.6 million or seven per cent from the previous crop year to $61.3 million. The reductions were realized primarily in the area of computer-related costs as the CWB has made strides to reduce its use of contractors and has realized the benefits of a strengthened and more focused information technology structure.

Further savings have been realized by reducing the usage of other consultants as well as a decrease in activity surrounding trade challenges to the CWB. The fact that 2001-02 was a non-election year for the Board of Directors also contributed to the decrease in costs.

A notable increase was in the area of communication. The CWB took steps to make farmers aware of a number of new initiatives, including the transportation agreement that was reached with the grain companies in August 2001, the enhancements to the Producer Payment Options and changes to the CWB's delivery policy. As well, the CWB dealt with a number of important current issues such as the Auditor General's report on the CWB and the latest U.S. trade challenge.

Recoveries of administrative expense realized by the CWB decreased as the CWB spent proportionately less time on cost-recoverable activities. These activities are primarily related to the advance payment programs administered on behalf of the Government of Canada.

GRAIN INDUSTRY ORGANIZATIONS

The CWB has continued to provide support for organizations that benefit, both directly and indirectly, the western Canadian grain farmer. During 2001-02, the CWB contributed a combined $1.7 million to the operations of Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC).

NET INTEREST EARNINGS

Net interest earnings of $91.6 million are due primarily to the net interest earned on amounts owed to the CWB on credit grain sales made under the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). When the CWB sells grain on credit, it must borrow an equal amount to facilitate payments to farmers and conduct ongoing operations. The CWB is able to borrow at a lower rate of interest than the rate extended to the credit customer. As a result, the CWB benefits from this 'spread' in interest rates since interest revenue exceeds interest expense.

During periods of falling interest rates, as was the case during most of 2001-02, interest earnings will tend to increase. This is because credit receivables are typically longer in term and are locked in at comparatively higher rates than borrowings which have shorter terms and are refinanced at lower rates.

Although the spread in interest rates widened during 2001-02, overall interest revenue and expenses both declined steeply due to substantially lower interest rates and significantly lower credit receivable balances, as countries such as Poland, Iran and Russia make sizeable repayments.

($000s)	2001-02	2000-01
Interest on credit sales		
Revenue on credit sales receivable	**$ 273,848**	$ 492,448
Expense on borrowings used to finance credit sales receivables	**187,907**	421,946
Net interest on credit sales	**85,941**	70,502
Interest revenue on pool account balances	**5,105**	6,312
Other interest		
Revenue	**4,630**	5,141
Expense	**4,037**	6,735
Net other interest	**593**	(1,594)
Total Net interest earnings	**$ 91,639**	$ 75,220

The other significant components of net interest earnings include:

- the interest income accumulated on pool account balances over the course of the crop year
- interest revenue from customers from delays in the receipt of sales proceeds on non-credit sales
- interest expense primarily from financing costs such as treasury fees and bank charges.

Smaller outstanding pool balances due to quicker payments to farmers and lower interest rates are the primary reasons for the decrease in pool related interest. Other interest revenue has declined due to lower interest rates and declining non-credit receivables from lower sales volumes. Other interest expense decreased because of reduced agency fees and dealer commissions paid to financial institutions, lower interest rates and reduced prepaid sales due to lower overall pool volumes.

Producer Payment Options

Providing farmers with choice and flexibility is a priority of the farmer-controlled board of directors. Beginning in 2000-01, the board of directors introduced a number of innovative Producer Payment Options (PPO) which, in the 2001-02 crop year, were enhanced and extended to a wider range of crops. While the PPO offer farmers unprecedented opportunities to exercise control over the marketing of their wheat and barley, they are structured so that the viability and the integrity of the CWB pool accounts are maintained. Price pooling, which provides farmers a return that reflects sales made throughout the crop year, is an effective price risk management tool that farmers continue to value and support.

PROGRAMS

Three types of PPO are available to Prairie farmers through the CWB.

1. The Fixed Price Contract (FPC): Introduced in the 2000-01 crop year, the FPC enables farmers to lock in a price for all or a portion of their wheat or feed barley before the beginning of the crop year (August 1). It is based on the CWB Pool Return Outlook (PRO) minus a discount for risk, time value of money and administration costs of the program. Program costs are entirely covered by the farmers who use it. Farmers get full payment for their grain when it has been both delivered and priced. They receive no further payments from the pool accounts for these deliveries. In 2000-01, fixed prices on CWRS and feed barley were offered. For 2001-02 and 2002-03, the FPC was extended to all classes of wheat and to feed barley. As well, an FPC on durum wheat was developed and made available to farmers on a trial basis for 2002-03. During the 2001-02 crop year, 437 farmers signed an FPC. They delivered 85 296 tonnes of wheat under the FPC.
2. The Basis Payment Contract (BPC): Launched at the same time as the FPC, the BPC enables farmers to lock in the difference or *basis* between the fixed price and the relevant U.S. futures price. When pricing their grain, farmers get the futures price that they have selected plus the basis that they locked in. Farmers get full payment for their grain when it has been both delivered and priced. They receive no further payments from the pool accounts for these deliveries. As with the FPC, the BPC was extended to all classes of wheat (excluding durum) for the 2001-02 crop year. In 2001-02, 379 farmers signed a BPC. A total of 66 855 tonnes were delivered under the BPC.
3. The Early Payment Option (EPO): In 2001-02, the CWB introduced the EPO as a pilot program for producers of CWRW and CWSWS wheat. It had previously only been available on feed barley committed to Guaranteed Delivery Contracts. The EPO enables farmers to receive 90 per cent of the PRO – less a discount for risk, time value of money and administration costs - at time of delivery while remaining in the pool account. Farmers receive the initial payment less the usual freight and elevation charges at that time. The CWB then issues an additional payment to bring the total to 90 per cent of the locked-in PRO less the discount. Because these deliveries remain in the pool account, farmers are eligible for any future adjustment, interim and final payments that increase the price of these deliveries beyond the value that they have locked in. This program therefore not only serves to help farmers meet their cash flow needs but also gives them the opportunity to set a floor price for their wheat and barley. The EPO has been extended to all classes of wheat for the 2002-03 crop year. Under the EPO, a total of 9 342 tonnes of CWRW and 1 966 tonnes of CWSWS were delivered for sale through the CWB in 2001-02. Eighty farmers signed EPO contracts for wheat. Total barley delivered under the EPO during the 2001-02 crop year was 2 501 tonnes. Twenty-one farmers signed barley EPO contracts.

FINANCIAL RESULTS

Once grain is delivered to the CWB for selling purposes, there is no segregation between deliveries made as a pool participant and those made under the FPC or BPC programs. Because deliveries made under the FPC and BPC are outside of the pool accounts, all pool returns (initial, interim and final payments) that otherwise would have been paid to farmers are instead paid to the programs. In 2001-02, this amounted to $32,070,429. When other revenue like hedging gains and liquidated damages and program expenses (including interest and administrative expenses) are accounted for, the FPC and BPC programs showed a surplus of $3,922,614. To this amount was added the surplus in the EPO pilot program on CWRW and CWSWS, which generated revenues of $28,551 against which $4,086 in interest costs were applied. The resulting surplus on all wheat PPO was $3,947,079. This was transferred to the contingency fund at year end (see Financial Statement note 14).

The strength in the domestic feed barley market in 2001-02 significantly impacted farmer commitments to the EPO. Total deliveries under the EPO fell from 191 253 tonnes in 2000-01 to 2 501 tonnes in 2001-02. The EPO discount, charged to farmers for risk, time value of money and program administration costs, was $18,046. Along with liquidated damages charged for non-delivery and net interest, this resulted in total revenue of $25,827. Hedging losses of $11,094 were applied against barley EPO revenue. The remaining surplus of $14,733 was transferred to the contingency fund at year end (see Financial Statement Note 14).

Credit sales

CREDIT SALES DURING THE YEAR		
(000's)	2001-02 Sales	2000-01 Sales
Credit Grain Sales Program	$ **131,554**	$ 222,463
Agri-food Credit Facility	**114,717**	159,431
Credit assumed by others	**158,568**	139,184
Total credit sales	**404,839**	521,078
Total sales	**$ 4,298,919**	$ 4,227,675

CREDIT PROGRAMS

The Government of Canada provides repayment guarantees on CWB credit sales. New credit proposals are recommended by the CWB for review and approval by the government. Acting within credit limits and terms approved by the government, the CWB works with individual customers to structure credit facilities. These credit arrangements are structured according to commercial terms and can be an important factor in foreign markets. During 2001-02, credit sales totaled $404.8 million, representing 9.5 per cent of total sales, compared to $521.1 million, or 12.3 per cent, of sales in the previous year.

The CWB uses two credit programs to offer credit:

Credit Grain Sales Program (CGSP)
The CGSP allows the CWB to sell grain on credit to customers who can provide a sovereign guarantee of repayment from their central bank or ministry of finance. During the year ended July 31, 2002, $131.6 million of grain was sold under the CGSP program (compared to $222.5 million the previous year).

The balance receivable at July 31, 2002 was $6.9 billion. Of this amount, $5.9 billion represented receivables for which payments of principal and interest has been rescheduled over periods ranging from five to 25 years under terms agreed to by the Government of Canada. Included in the rescheduled amount was $30.8 million to be paid to the CWB by the government under debt-reduction arrangements, where the government had assumed certain amounts that otherwise would have been paid by the debtor government.

Overdue amounts of $884.1 million were due from Iraq at July 31, 2002. Iraq is not currently honoring its payment obligations because of United Nations sanctions.

Since the Government of Canada guarantees repayment of 100 per cent of the principal and interest of the CGSP receivables, the CWB makes no allowance for credit losses (see Note 3 on page 50 for more information).

Agri-food Credit Facility (ACF)
The ACF allows the CWB to sell grain directly or through accredited exporters, on credit to commercial (non-government) customers around the world. The Government of Canada, and the CWB evaluate each transaction. During the year ended July 31, 2002, $114.7 million of grain was sold under the ACF program, compared to $159.4 million for the previous year.

The balance receivable at July 31, 2002 from sales made under this program was $60.2 million. The Government of Canada guarantees a declining percentage of the receivables under this program based on the repayment period, with the CWB assuming the residual risk not guaranteed. The portion of credit risk assumed by the CWB under this program at July 31, 2002 was $1.2 million. This is considered collectable, therefore there was no allowance for credit losses (Note 3, page 50).

Credit Assumed by Others
The CWB may partner with other parties in providing credit to CWB customers. In these cases, the CWB receives payment for the other party's portion of the credit transaction. The other party then assumes the risk of non-payment by the customer on their portion of the credit extended. During the year ended July 31, 2002, credit provided by other parties under these arrangements totaled $158.6 million, compared to $139.2 million the previous year.

SUMMARY

The CWB's accounts receivable from credit sales totaled $6.965 million for 2001-02 (Note 3, page 50). This amount is guaranteed by the Government of Canada except for $1.2 million that is assumed by the CWB.

Funding

The CWB is committed to minimizing borrowing costs and maintaining access to money through exploring new borrowing opportunities, as well as expanding and diversifying its investor base.

Under the *Canadian Wheat Board Act*, and with the approval of the federal Minister of Finance, the CWB is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness.

All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the Minister of Finance, resulting in the top credit ratings from Moody's Investor Service (Aaa and P-1), Standard and Poor's Ratings Group (AAA, A1+ and AA+) and Dominion Bond Rating Service (AAA, R-1H and AAH).

The CWB borrows money to finance grain inventories, accounts receivable from credit sales, administrative and operating expenses and to administer the Government of Canada's advance payment programs. The CWB borrows in a variety of currencies, but eliminates currency risk by converting borrowings into either Canadian or U.S. dollars to match the assets being financed.

The CWB manages multiple debt portfolios totaling $7 to $8 billion Canadian. These include:

- Domestic Commercial Paper Program (the "Wheat Board Note" program);
- U.S. Commercial Paper Program;
- Euro Commercial Paper Program; and
- Euro Medium-Term Note Program.

Financial risk management

The CWB seeks to minimize risks related to the financial operations of the corporation. The CWB actively manages exposures to financial risks and ensures adherence to approved corporate policies and risk-management guidelines.

MARKET RISK

Market risk is the risk to the CWB's financial condition resulting from adverse movements in the level or volatility of market prices. The market risks to which the CWB is exposed are commodity, foreign exchange and interest rate risk.

Commodity price risk

Commodity price risk is exposure to reduced revenue for the CWB resulting from adverse change in commodity prices. The CWB uses exchange traded futures and option contracts to mitigate commodity price risk inherent to its core business.

One of the CWB's major commodity risk management programs involves managing the price risk associated with customer basis contracts. The CWB manages the risk of an adverse movement in the price of grain between the time the grain is sold and when the customer prices the grain by using exchange traded derivative contracts. The CWB may also use derivative contracts to price grain when there is insufficient opportunity to do so in the physical market. In addition, the CWB manages commodity price risk related to various pricing options offered to Prairie farmers.

Foreign exchange risk

Foreign exchange risk is the exposure to changes in foreign exchange rates that may adversely affect Canadian dollar returns to the CWB. Sales made by the CWB are priced either directly or indirectly in U.S. dollars, resulting in exposure to foreign exchange risk.

To manage foreign exchange risk, the CWB hedges foreign currency sales values using derivative contracts to protect the expected Canadian dollar proceeds on sales contracts. In addition, the CWB manages foreign exchange risk as it relates to various pricing options offered to Prairie farmers.

Interest rate risk

Interest rate risk is the exposure to changes in market interest rates that may adversely affect the CWB's net interest earnings. The CWB's interest rate risk arises from the mismatch in term and interest rate re-pricing dates on the CWB's interest earning assets and interest paying liabilities. The spread between the interest earning assets and interest paying liabilities represents net interest earnings, which are paid to farmers annually.

CREDIT RISK

Credit risk is the risk of potential loss should a counterparty fail to meet its contractual obligations. The CWB is exposed to credit risk on non-guaranteed credit sales accounts receivable, as well as credit risk on investments and over-the-counter derivative transactions used to manage the CWB's market risks.

Accounts receivable from credit sales

The CWB sells grain under two government-guaranteed export credit programs: the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF) of which CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see the "Credit sales" section on page 36 and Note 3 on page 50.

Investments

The CWB uses short-term investments for the purpose of cash management, adhering to requirements of the *Canadian Wheat Board Act*, the CWB's annual borrowing authority granted by the Minister of Finance and applicable government guidelines. The CWB manages investment related credit risk by transacting only with highly-rated counterparties.

Derivative Transactions

The CWB enters into master agreements with all counterparties to minimize credit, legal and settlement risk. The CWB transacts only with highly-rated counterparties who meet the requirements of the CWB's financial risk management policies. These policies meet or exceed the Minister of Finance's credit policy guidelines.

The CWB's commodity futures and option contracts involve minimal credit risk, as the contracts are exchange traded. The CWB manages its credit risk on futures and option contracts by dealing through exchanges which require daily mark-to-market and settlement.

LIQUIDITY RISK

Liquidity risk is the risk that the CWB will be unable to meet its corporate obligations. In the normal course of operations, the CWB's diversified funding programs provide sufficient liquidity to meet daily cash requirements. The CWB may hold highly-rated, short-term investments to ensure that sufficient funds are available to meet debt obligations. Additionally, the CWB maintains lines of credit with financial institutions to provide supplementary access to funds.

OPERATIONAL RISK

Operational Risk is the risk of loss resulting from a breakdown in administrative procedures and controls or any aspect of operating procedures. The CWB's operational risk management philosophy encourages an environment of effective operational risk discipline. Operational risk management activities include segregation of duties, cross-training and professional development, disaster recovery planning, use of an integrated financial system, internal and external audits and an independent risk-control and reporting function.

Outlook

The disastrous crop conditions that plagued Prairie farmers in 2002 have resulted in sharply lower production of wheat, durum and barley for the 2002-03 crop year. Total production in fact was less than 50 per cent of historical averages. Unlike the previous year, where lower yields were partially offset by higher quality, poor harvesting conditions in the fall of 2002 have downgraded significant portions of the wheat, durum and barley crops and adversely affected the grade pattern. This means that the CWB will be focussing on selling the limited supplies of high quality grain into the highest value markets while working hard to meet the needs of other customers with the remaining grain. However, the CWB will not be able to meet the full requirements of all its traditional customers.

The upshot of poor crops in Western Canada, as well as in other major exporting nations like Australia and, to a lesser extent, the U.S., is that prices rallied strongly in the late summer of 2002 and that they continue to be volatile. Markets for high quality wheat and barley, in particular, have risen significantly, reflecting tight worldwide supplies. This is of small consolation to the many Prairie farmers who do not have a crop or who have seen the quality of their crop decimated by unfavourable weather conditions. For those fortunate enough to have received timely rains and good weather conditions, 2002-03 may actually be one of those rare occasions where reasonable yields and strong prices coincide.

The precipitation that has hampered harvesting operations in many areas across Western Canada has also improved soil moisture conditions over what they were in the fall of 2001. Total rainfall in significant parts of Western Canada over the August 1 to September 30 period, for example, was over 125 per cent of normal. While this resulted in significant harvest problems, it augurs well for the 2003 crop, since fall precipitation provides an important buffer, reducing the risk of a repeat of last summer's drought. However, large areas of northwestern Saskatchewan as well as central and northern Alberta are still in serious need of moisture.

The stronger prices of 2002-03 are expected to decline if global production returns to more normal levels in the 2003-04 crop year. Increased production from nations in Eastern Europe and Asia – which were considered until recently to be minor exporters – will likely continue to pressure prices for lower quality and feed grain. However, with tighter stocks in major exporting nations like Canada and Australia, any problems with next year's crop would support higher prices.

Prairie farmers, however, have reason to be concerned by two important issues that threaten to limit their access to some of the higher value markets in which they have achieved a significant market share. The first is the most recent anti-dumping and countervail duty petitions brought forth by the U.S. wheat industry. Although this comes on the heels of nine previous unsuccessful trade challenges, the uncertainty caused by the threat of punitive tariffs and the cost of fighting allegations of unfair trading practices remain a source of aggravation for Prairie farmers. The CWB is committed to maintaining access to the American market and to ensuring that the facts alone determine the outcome of this latest challenge.

The CWB is also working hard to preserve market access for western Canadian wheat by ensuring that no genetically-modified varieties are brought forward for registration until strict conditions are met, including market acceptance and effective segregation systems. The CWB and its grain industry partners agree that without adequate market acceptance, harm to Prairie farmers will occur. The extent of market harm must be estimated and evaluated against all other expected benefits.

Forward-looking information

Certain forward-looking statements contained in this annual report are subject to risk and uncertainty because they rely on assumptions and estimates based on current information. A number of factors could cause actual results to differ from those expressed, including, but not limited to: weather; changes in government policy and regulations; world agricultural commodity prices and markets; changes in competitive forces; and global political/economic conditions, including grain subsidy actions of the U.S. and the EU.

Financial results

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Canadian Wheat Board included in this Annual Report are the responsibility of the Corporation's management and have been reviewed and approved by the board of directors. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and reflect the results for the 2001-02 pool accounts, producer payment options and the financial status of the Corporation at July 31, 2002.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by an internal audit department that conducts periodic reviews of different aspects of the Corporation's operations.

The board of directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of directors exercises this responsibility through the Audit and Finance Committee of the board, which is composed of directors who are not employees of the Corporation. The Audit and Finance Committee meets with management, the internal auditors and the external auditors on a regular basis, and the external and internal auditors have full and free access to the Audit and Finance Committee.

The Corporation's external auditors, Deloitte & Touche LLP, are responsible for auditing the transactions and financial statements of the Corporation and for issuing their report thereon.

Greg S. Arason
President and Chief Executive Officer

Gordon P. Menzie
Executive Vice-President, Finance

Winnipeg, Manitoba
November 15, 2002

Deloitte & Touche

AUDITORS' REPORT

To the Board of Directors of the Canadian Wheat Board:

We have audited the financial statements of the Canadian Wheat Board which consist of the balance sheet as at July 31, 2002 and the combined statement of operations and statement of distribution for the 2001-02 pool accounts, the statements of operations and statements of distribution for the 2001-02 pool accounts for wheat, durum and barley for the period August 1, 2001 to completion of operations on July 31, 2002 and for designated barley for the period August 1, 2001 to completion of operations on August 31, 2002, the statement of operations for wheat and barley payment option programs for the period August 1, 2001 to July 31, 2002, the statement of cash flow for the year ended July 31, 2002, and the statement of administrative expenses for the year ended July 31, 2002. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2002 and the results of its operations and its cash flows for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Deloitte & Touche LLP
Chartered Accountants

Winnipeg, Manitoba
November 15, 2002

Balance sheet

AS OF JULY 31 (000's)	2002	2001
ASSETS		
Accounts Receivable		
Credit programs (Note 3)	**$ 6,965,448**	$ 7,179,353
Non-credit sales	**15,166**	25,872
Advance payment programs (Note 4)	**394,921**	447,048
Prepayment of inventory program	**42,102**	13,480
Other	**59,190**	17,058
	7,476,827	7,682,811
Inventory of Grain (Note 5)	**905,643**	995,804
Deferred and Prepaid Expenses (Note 6)	**32,886**	21,209
Capital Assets (Note 7)	**56,762**	60,261
Total Assets	**$ 8,472,118**	$ 8,760,085
LIABILITIES		
Borrowings (Note 8)	**$ 7,336,362**	$ 7,644,976
Accounts Payable and Accrued Expenses (Note 9)	**128,873**	138,887
Liability to Agents (Note 10)	**550,015**	594,219
Liability to Producers – Outstanding Cheques	**34,701**	32,132
Liability to Producers – Undistributed Earnings (Note 11)	**402,859**	341,476
Provision for Producer Payment Expenses (Note 12)	**3,687**	4,769
Special Account (Note 13)	**4,199**	3,281
Contingency Fund (Note 14)	**11,422**	345
Total Liabilities	**$ 8,472,118**	$ 8,760,085

Approved by the board of directors:

Ken Ritter

KEN RITTER
Chair, board of directors

GREG ARASON
President and Chief Executive Officer

Combined pool accounts

Crop year (000's)		2001-2002		2000-2001
STATEMENT OF POOL OPERATIONS *				
Receipts (tonnes)		**18 836 452**		20 353 543
Revenue	**$**	**4,298,919**	$	4,227,674
Operating Costs				
Direct costs				
Country elevator carrying charges				
Financing		**11,684**		22,917
Storage		**36,468**		43,074
Terminal storage		**20,867**		19,266
Net Demurrage (Despatch)		**(4,175)**		6,085
Additional freight				
To terminals		**16,125**		25,023
Movement to eastern export position		**31,952**		56,346
Freight rate changes		**1,241**		995
Drying		**113**		318
CWB hopper cars		**1,437**		3,360
Total direct costs		**115,712**		177,384
Administrative expenses (Note 18)		**50,446**		66,435
Grain industry organizations		**1,689**		1,652
Net interest earnings		**(91,639)**		(75,220)
Total Operating Costs		**76,208**		170,251
Earnings for Distribution	**$**	**4,222,711**	$	4,057,423

* Excludes operation of producer payment option programs

STATEMENT OF DISTRIBUTION				
Pool Accounts				
Receipts (tonnes)		**18 684 301**		20 332 405
Initial payments on delivery	**$**	**3,366,342**	$	3,175,762
Adjustment payments		**401,370**		520,447
Interim payment		**209,793**		233,949
Final payment		**192,959**		107,376
Producer contract storage payments		**12,955**		15,574
Rebate on producer cars		**107**		152
Earnings Distributed to Pool Participants		**4,183,526**		4,053,260
Non-Pool Producer Payment Option Programs				
Receipts (tonnes)		**152 151**		21 138
Pool returns paid to payment programs		**32,070**		4,163
Transferred to Contingency Fund				
Undistributed earnings		**7,115**		
Total Distribution	**$**	**4,222,711**	$	4,057,423

Wheat pool

Crop year (000's)	2001-02 Total	2001-02 Per Tonne	2000-01 Total	2000-01 Per Tonne
STATEMENT OF POOL OPERATIONS *				
Receipts (tonnes)	**13 330 652**		13 960 639	
Revenue (Note 17)	**$ 2,915,188**	**$ 218.68**	$ 2,735,936	$ 195.97
Operating Costs				
Direct costs				
Country elevator carrying charges				
Financing	**8,193**	**0.61**	14,903	1.06
Storage	**24,480**	**1.84**	26,679	1.91
Terminal storage	**12,569**	**0.94**	11,973	0.86
Net Demurrage (Despatch)	**(2,841)**	**(0.21)**	5,041	0.36
Additional freight				
To terminals	**11,883**	**0.89**	20,951	1.50
Movement to eastern export position	**(7,864)**	**(0.59)**	776	0.06
Freight rate changes	**556**	**0.04**	613	0.04
Drying	**111**	**0.01**	278	0.02
CWB hopper cars	**1,017**	**0.08**	2,305	0.17
Total direct costs	**48,104**	**3.61**	83,519	5.98
Administrative expenses (Note 18)	**35,708**	**2.68**	45,545	3.26
Grain industry organizations	**1,123**	**0.08**	1,075	0.08
Net interest earnings	**(69,709)**	**(5.23)**	(58,340)	(4.18)
Total Operating Costs	15,226	1.14	71,799	5.14
Earnings for Distribution	**$ 2,899,962**	**$ 217.54**	$ 2,664,137	$ 190.83

* Excludes operation of producer payment option programs

STATEMENT OF DISTRIBUTION	2001-02 Total	2001-02 Per Tonne	2000-01 Total	2000-01 Per Tonne
Pool Account				
Receipts (tonnes)	**13 178 501**		13 939 501	
Initial payments on delivery	**$ 2,336,994**	**$ 177.33**	$ 2,156,832	$ 154.73
Adjustment payments	**293,024**	**22.23**	330,590	23.72
Interim payment	**99,460**	**7.55**	116,065	8.33
Final payment	**138,342**	**10.50**	56,385	4.05
Rebate on producer cars	**72**	**0.01**	102	0.01
Earnings Distributed to Pool Participants	**2,867,892**	**217.62**	2,659,974	190.82
Non-Pool Producer Payment Option Programs				
Receipts (tonnes)	**152 151**		21 138	
Pool returns paid to payment programs	**32,070**	**210.78**	4,163	196.95
Total Distribution	**$ 2,899,962**	**$ 217.54**	$ 2,664,137	$ 190.83

For the period August 1, 2001 to completion of operations on July 31, 2002 (with prior year comparative for period ended August 31, 2001).

Durum pool

Crop year (000's)	2001-02 Total	2001-02 Per Tonne	2000-01 Total	2000-01 Per Tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**3 246 369**		3 665 343	
Revenue (Note 17)	**$ 904,810**	**$ 278.71**	$ 969,891	$ 264.61
Operating Costs				
Direct costs				
Country elevator carrying charges				
Financing	**1,768**	**0.55**	5,611	1.53
Storage	**5,663**	**1.74**	10,832	2.96
Terminal storage	**8,544**	**2.63**	7,270	1.98
Net Demurrage (Despatch)	**(1,328)**	**(0.41)**	(605)	(0.17)
Additional freight				
To terminals	**4,271**	**1.32**	4,056	1.11
Movement to eastern export position	**39,816**	**12.26**	55,570	15.16
Freight rate changes	**339**	**0.10**	381	0.10
Drying	**1**	**0.00**	13	0.00
CWB hopper cars	**248**	**0.08**	605	0.17
Total direct costs	**59,322**	**18.27**	83,733	22.84
Administrative expenses (Note 18)	**8,705**	**2.68**	11,962	3.26
Grain industry organizations	**274**	**0.08**	282	0.08
Net interest earnings	**(11,978)**	**(3.68)**	(8,124)	(2.21)
Total Operating Costs	56,323	17.35	87,853	23.97
Earnings for Distribution	**$ 848,487**	**$ 261.36**	$ 882,038	$ 240.64

	2001-02 Total	2001-02 Per Tonne	2000-01 Total	2000-01 Per Tonne
STATEMENT OF DISTRIBUTION				
Pool Account				
Receipts (tonnes)	**3 246 369**		3 665 343	
Initial payments on delivery	**$ 621,925**	**$ 191.58**	$ 609,383	$ 166.26
Adjustment payments	**83,431**	**25.70**	133,753	36.49
Interim payment	**108,702**	**33.48**	100,481	27.41
Final payment	**34,399**	**10.59**	38,376	10.47
Rebate on producer cars	**30**	**0.01**	45	0.01
Total Distribution	**$ 848,487**	**$ 261.36**	$ 882,038	$ 240.64

For the period August 1, 2001 to completion of operations on July 31, 2002 (with prior year comparative for period ended August 31, 2001).

Barley pool

Crop year (000's)	2001-02 Total	2001-02 Per Tonne	2000-01 Total	2000-01 Per Tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	**54 373**		454 073	
Revenue (Note 17)	**$ 9,505**	**$ 174.82**	$ 63,175	$ 139.13
Operating Costs				
Direct costs				
Country elevator carrying charges				
Financing	**3**	**0.06**	276	0.60
Storage	**141**	**2.59**	1,466	3.23
Terminal storage	**264**	**4.86**	213	0.47
Net Demurrage (Despatch)	**20**	**0.38**	1,762	3.88
Additional freight				
To terminals	**(29)**	**(0.54)**	16	0.04
Freight rate changes	**(16)**	**(0.29)**	(84)	(0.19)
Drying	**1**	**0.01**	27	0.06
CWB hopper cars	**4**	**0.08**	75	0.17
Total direct costs	**388**	**7.15**	3,751	8.26
Administrative expenses (Note 18)	**146**	**2.69**	1,511	3.32
Grain industry organizations	**5**	**0.08**	35	0.08
Net interest earnings	**(7,913)**	**(145.54)**	(6,409)	(14.11)
Total Operating Costs	**(7,374)**	**(135.62)**	(1,112)	(2.45)
Earnings for Distribution	**$ 16,879**	**$ 310.44**	$ 64,287	$ 141.58
STATEMENT OF DISTRIBUTION				
Pool Account				
Receipts (tonnes)	**54 373**		454 073	
Initial payments on delivery	**$ 7,057**	**$ 129.79**	$ 46,153	$ 101.64
Adjustment payments	**366**	**6.74**	12,736	28.05
Interim payment	**1,631**	**30.00**	3,190	7.03
Final payment	**708**	**13.02**	2,203	4.85
Rebate on producer cars	**2**	**0.04**	5	0.01
Earnings distributed to producers	**9,764**	**179.59**	64,287	141.58
Transferred to Contingency fund				
Undistributed earnings	**7,115**	**130.85**	–	–
Total Distribution	**$ 16,879**	**$ 310.44**	$ 64,287	$ 141.58

For the period August 1, 2001 to completion of operations on July 31, 2002 (with prior year comparative for period ended August 31, 2001).

Designated barley pool

Crop year (000's)		2001-02 Total		2001-02 Per Tonne		2000-01 Total		2000-01 Per Tonne
STATEMENT OF POOL OPERATIONS								
Receipts (tonnes)		**2 205 058**				2 273 488		
Revenue (Note 17)	**$**	**469,416**	**$**	**212.88**	$	458,672	$	201.75
Operating Costs								
Direct costs								
Country elevator carrying charges								
Financing		**1,720**		**0.78**		2,126		0.93
Storage		**6,184**		**2.80**		4,097		1.80
Terminal storage		**(510)**		**(0.23)**		(190)		(0.08)
Net Demurrage (Despatch)		**(26)**		**(0.01)**		(113)		(0.05)
Additional Freight - Freight rate changes		**362**		**0.16**		85		0.04
CWB hopper cars		**168**		**0.08**		375		0.17
Total direct costs		**7,898**		**3.58**		6,380		2.81
Administrative expenses (Note 18)		**5,887**		**2.67**		7,417		3.26
Grain industry organizations		**287**		**0.13**		260		0.11
Net interest earnings		**(2,039)**		**(0.92)**		(2,346)		(1.03)
Total Operating Costs		**12,033**		**5.46**		11,711		5.15
Earnings for Distribution	**$**	**457,383**	**$**	**207.42**	$	446,961	$	196.60

STATEMENT OF DISTRIBUTION								
Pool Account								
Receipts (tonnes)		**2 205 058**				2 273 488		
Initial payments on delivery	**$**	**400,366**	**$**	**181.57**	$	363,394	$	159.84
Adjustment payments		**24,549**		**11.13**		43,368		19.08
Interim payment		**–**		**–**		14,213		6.25
Final payment		**19,510**		**8.85**		10,412		4.58
Producer contract storage payments		**12,955**		**5.87**		15,574		6.85
Rebate on producer cars		**3**		**–**		–		–
Total Distribution	**$**	**457,383**	**$**	**207.42**	$	446,961	$	196.60

For the period August 1, 2001 to completion of operations on August 31, 2002 (with prior year comparative for period ended September 30, 2001).

Statement of payment option program operations

For the year ended July 31 (000's)	2002	2001
WHEAT PROGRAMS		
Fixed Price Contract/Basis Price Contract		
Receipts (tonnes)	**152 151**	21 138
Revenue		
Pool returns paid to the program	**$ 32,070**	$ 4,163
Net hedging activity	**1,704**	213
Liquidated damages	**649**	36
Total Revenue	**34,423**	4,412
Expense		
Contracted amounts paid to producers	**29,673**	4,027
Net interest	**77**	42
Bad debt expense	**427**	–
Administrative expense	**323**	216
Total Expense	**30,500**	4,285
Net Surplus on Program Operations	**$ 3,923**	$ 127
Early Payment Option		
Receipts (tonnes)	**11 308**	
Revenue		
Program discount	**$ 21**	$ –
Net hedging activity	**6**	–
Liquidated damages	**1**	–
Total Revenue	**28**	–
Expense		
Net interest	**4**	–
Total Expense	**4**	–
Net Surplus on Program Operations	**$ 24**	$ –
TOTAL WHEAT PROGRAMS (Note 14)	**$ 3,947**	$ 127
BARLEY PROGRAMS		
Early Payment Option		
Receipts (tonnes)	**2 501**	191 253
Revenue		
Program discount	**$ 18**	$ 398
Liquidated damages	**3**	12
Net interest	**5**	–
Total Revenue	**26**	410
Expense		
Net hedging activity	**11**	136
Net interest	**–**	56
Total Expense	**11**	192
Net Surplus on Program Operations (Note 14)	**$ 15**	$ 218

Statement of cash flow

FOR THE YEAR ENDED JULY 31 (000's)	2002	2001
Increases (Decreases) of cash during the year		
Cash Flow from Operating Activities		
Received from sale of grain	$ 4,298,919	$ 4,227,675
Pool operating costs	(76,208)	(170,251)
Producer payment option programs operations	1,565	209
Add non-cash items		
Depreciation on CWB hopper cars	2,574	2,836
Depreciation on other capital assets	7,392	7,776
Cash flow from operating activities before changes in working capital	4,234,242	4,068,245
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	(7,920)	(180,062)
Inventory of grain	90,160	186,423
Deferred and prepaid expenses	(11,677)	(13,251)
Accounts payable and accrued expenses	(10,015)	5,913
Liability to agents	(44,204)	(264,292)
Liability to producers for outstanding cheques	2,569	(190,473)
Provision for producer payment expenses	(1,082)	(1,191)
Special account	919	(56)
	4,252,992	3,611,256
Cash Flow from Financing Activities		
Increase (Decrease) in borrowings	(308,614)	380,767
	(308,614)	380,767
Cash Flow from Investing and Other Activities		
Accounts receivable - credit programs	213,905	27,638
Purchase of capital assets	(7,019)	(2,840)
Proceeds from sale of capital assets	552	315
	207,438	25,113
Cash Distributions		
Prior year undistributed earnings	(341,476)	(301,325)
Current year distributions prior to July 31	(3,780,667)	(3,711,784)
Non-pool producer payment option payments	(29,673)	(4,027)
	(4,151,816)	(4,017,136)
Net Increase in Cash and Cash Equivalents	–	–
Net Cash Position at Beginning of Year	–	–
Net Cash Position at End of Year	$ –	$ –

Statement of administrative expenses

FOR THE YEAR ENDED JULY 31 (000's)		2002		2001
CWB Costs				
Board of Directors	$	**1,117**	$	1,185
Computer contractors		**1,933**		3,136
Computer maintenance and services		**3,529**		6,340
Communications		**1,713**		1,056
CWB publications		**824**		775
Farmer permits, contracts & payments		**725**		815
Facilities		**1,738**		1,530
Office services		**2,598**		2,678
Human resources		**35,447**		35,472
Training		**595**		655
Recruitment		**361**		300
Other		**679**		754
Professional fees and outside services		**2,205**		2,571
Taxes		**411**		343
Travel		**1,629**		1,543
		55,504		59,153
Depreciation		**7,392**		7,776
Recovery of administrative expenses		**(1,949)**		(2,640)
		60,947		64,289
Special Expenses				
Trade actions		**276**		1,091
Director elections		**30**		583
Reorganization costs		-		(75)
		306		1,599
Total Administrative Expenses (Note 18)	$	**61,253**	$	65,888

Notes to the financial statements

1. ACT OF INCORPORATION AND MANDATE

The Canadian Wheat Board (the Corporation) was established by the *Canadian Wheat Board Act*, a statute of the Parliament of Canada. On June 11, 1998, Bill C-4, *An Act to Amend the Canadian Wheat Board Act* continued the Corporation as a shared governance corporation, without share capital, effective December 31, 1998.

The Corporation was created for the purpose of marketing, in an orderly manner, in inter-provincial and export trade, grain grown in Western Canada. The Corporation is headed by a board of directors, comprised of ten producer-elected and five government-appointed members. The Corporation is accountable for its affairs to both western Canadian farmers through its elected board members and to Parliament through the Minister responsible for the Canadian Wheat Board.

The Corporation is exempt from income taxes pursuant to Section 149(1)(d) of the *Income Tax Act*.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the Corporation's significant accounting policies.

RESULTS OF OPERATIONS

The financial statements at July 31 include the final operating results for all pool accounts and programs for the crop year ended July 31, where marketing operations have been completed thereafter. In determining the financial results for such pools and programs, the accounts of the Corporation at July 31 include:

Revenue – Revenue from grain sales recognized in the accounts at the time that shipment is made, at the equivalent value of the proceeds receivable at Vancouver, Churchill or St. Lawrence position.

Inventory – Inventory of grain on hand at July 31 at the values that were ultimately expected to be received as sale proceeds.

Expenses incurred subsequent to July 31 - Provision for all expenses incurred or to be incurred in the process of marketing these inventories of grain including a charge for the portion of administrative expenses incurred subsequent to July 31 but relating to this marketing activity. Expenses related to marketing activities carried out subsequent to July 31 are included in accounts payable and accrued expenses. The expenses included are carrying charges, transportation charges, and administrative costs, together with all other sundry expenses incurred during the period.

Liability to producers - Balances not yet distributed to producers at July 31 where marketing operations have been completed for the current pool accounts are included in liability to producers.

ALLOWANCES FOR LOSSES ON ACCOUNTS RECEIVABLE

Accounts receivable from credit programs – The Government of Canada guarantees the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sales Program, and a declining percentage, based on the repayment term of the credit, of all receivables resulting from sales made under the Agri-food Credit Facility. The Corporation assumes the risk not covered by the Government of Canada. For receivables resulting from credit sales made outside of the Credit Grain Sales Program and the Agri-food Credit Facility, the Corporation may enter into arrangements with commercial banks who will assume the credit risk without recourse.

Accounts receivable from non-credit sales – Shipments are made pursuant to the receipt of appropriate letters of credit issued by commercial banks that guarantee the receipt of funds by the Corporation.

Accounts receivable from advance payment programs – The Government of Canada guarantees the repayment of the principal amount due from producers resulting from cash advances made under the *Agricultural Marketing Programs Act*, and the *Spring Credit Advance Program*.

With respect to receivables from credit programs, non-credit sales and advance payment programs, as a result of these guarantees and arrangements, no provision is made with respect to the possibility of debtors defaulting on their obligations. Other receivable accounts are monitored and allowance for losses are provided for where collection is deemed unlikely.

CAPITAL ASSETS AND DEPRECIATION

Capital assets are recorded at cost and depreciated on a straight line method over their expected useful life as follows:

Asset Class	Term (years)
Computer equipment	1 to 5
Computer systems development	2 to 10
Automobiles	3
Building and office improvements	3
Office furniture and equipment	10
Hopper cars	30
Building	40
Leasehold improvements	Term of lease

TRANSLATION OF FOREIGN CURRENCIES

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance sheet date. Exchange adjustments arising from the translation of foreign currency denominated assets or liabilities are recognized in the period in which they occur, as a component of revenue. Borrowings in currencies other than the Canadian or United States dollar are hedged by foreign exchange contract agreements and are converted into Canadian or United States dollars at the rates provided therein. The Corporation hedges its United States dollar assets and liabilities on a portfolio basis primarily by matching United States dollar assets with United States dollar liabilities.

Sales contracts denominated in foreign currencies are hedged by foreign exchange forward contracts. Forward exchange contracts are translated into Canadian dollars at the rates provided therein. These amounts are recorded in revenue as an adjustment to the underlying sales transactions.

Other income and expenses are translated at the daily exchange rates in effect during the year.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses various types of derivative financial instruments such as currency and interest rate swaps, foreign exchange forward and option contracts and commodity future and option contracts in order to manage its exposure to currency, interest rate and commodity price risks. These instruments are designated as hedges and are only used for risk management purposes.

Interest rate contracts – Amounts to be paid or received under swap and forward contracts are recognized in the period in which they occur, as a component of net interest earnings.

Currency exchange contracts – Amounts to be paid or received under currency exchange contracts are recognized in the same pool account in which the related foreign currency transaction occurs, as a component of sales revenue.

Commodity contracts – Amounts to be paid or received under wheat future and option contracts are recognized in the same pool account as the related sale that is being hedged, as a component of sales revenue.

NET INTEREST EARNINGS

Net interest earnings includes interest revenue and expenses related to accounts receivable and borrowings, bank charges, transaction and program fees on borrowing facilities and interest earned on each pool account during the pool period and until final distribution of earnings to producers.

EMPLOYEE FUTURE BENEFITS

Employees of the Corporation are entitled to specified benefits provided upon retirement or termination.

Pension Plan – Employees participate in the Public Service Superannuation Act pension plan, which is a multiemployer defined benefit plan, administered by the Government of Canada. The Corporation matches employees' contributions for current or prior service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Corporation.

Other Post-Employment Benefits - The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets over the periods in which the employees render services in return for the benefits. The Corporation has adopted the following policies:

- The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. Post-employment benefits include health care, life insurance, long service allowance, unused sick leave accumulated prior to 1988, and unused vacation accumulated prior to 1996.
- The transitional obligation as at July 31, 2000 was $13,685,546 and is being amortized on a straight-line basis over the Average Remaining Service Period (ARSP) which is 15 years.
- Actuarial gains and losses over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets are amortized over the ARSP.

3. ACCOUNTS RECEIVABLE FROM CREDIT SALES PROGRAMS

(000's)	*Credit Grain Sales Program*	*Agri-food Credit Facility*	2002 Total	2001 Total
Due from Foreign Customers				
Current	$ 136,104	$ 60,241	$ 196,345	$ 313,330
Overdue	884,086	–	884,086	828,140
Subject to Paris Club rescheduling	–	–	–	12,558
Rescheduled	5,854,174	–	5,854,174	5,971,401
	6,874,364	60,241	6,934,605	7,125,429
Due from Government of Canada	30,843	–	30,843	53,924
	$ 6,905,207	$ 60,241	$ 6,965,448	$ 7,179,353
Credit Risk				
Guaranteed by Government of Canada	$ 6,905,207	$ 59,036	$ 6,964,243	$ 7,177,654
Assumed by CWB	–	1,205	1,205	1,699
	$ 6,905,207	$ 60,241	$ 6,965,448	$ 7,179,353

Accounts receivable balances are classified under the following applicable credit programs:

CREDIT GRAIN SALES PROGRAM

Accounts receivable under this program arise from sales to Algeria, Brazil, Egypt, Ethiopia, Haiti, Iran, Iraq, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. Of the $6,874,364,143 principal and accrued interest due from foreign customers at July 31, 2002, $5,279,682,444 represents the Canadian equivalent of $3,335,449,140 repayable in United States funds. Of the $7,040,468,948 principal and accrued interest due from customers at July 31, 2001, $5,340,072,635 represents the Canadian equivalent of $3,484,549,844 repayable in United States funds.

Overdue accounts receivable at July 31, 2002 represent amounts due from Iraq where payments for past credit sales had not been received on due dates and were still outstanding at year end.

Through a forum known as the Paris Club, the Government of Canada and other creditors have periodically agreed to extend repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country. All members of the Paris Club are obligated to grant the debtor country the same treatment. Under terms agreed to by the Government of Canada at the Paris Club, the Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Algeria, Brazil, Egypt, Ethiopia, Haiti, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to twenty-five years.

In addition to debt rescheduling by means of extending repayment terms, the Government of Canada has agreed to reduce the debt owed to the Corporation by Ethiopia, Poland and Zambia. Under these debt reduction arrangements, amounts that otherwise would have been paid by the debtor government are paid to the Corporation by the Government of Canada. A total of $30,843,094 was due from the Government of Canada as at July 31, 2002 under these debt reduction agreements. Of this amount, $14,396,068 represents the Canadian equivalent of $9,094,742 that will be repayable in United States funds.

There is no allowance for credit losses, as the Government of Canada guarantees repayment of the principal and interest of all credit receivables under this program.

AGRI-FOOD CREDIT FACILITY

Accounts receivable under this facility include sales to customers in Indonesia, Mexico, and Peru. The July 31, 2002 balance of $60,241,181 principal and accrued interest due under the Agri-food Credit Facility

(ACF) represents the Canadian equivalent of $38,057,477 repayable in United States funds. The July 31, 2001 balance of $84,960,338 principal and accrued interest represents the Canadian equivalent of $55,439,046 repayable in United States funds.

There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. Management considers this balance collectable in its entirety, therefore there is no allowance for credit losses.

FAIR VALUE

All accounts receivable resulting from sales made under credit programs as at July 31, 2002 have contractual interest rate repricing dates under 365 days. As a result of the short terms to repricing dates of these financial instruments, fair value approximates the carrying values.

MATURITIES

These accounts receivable mature as follows:

(000's)	2002	2001
Amounts due:		
Within 1 year	$ **604,612**	$ 667,208
From 1 - 2 years	**448,988**	338,840
From 2 - 3 years	**536,784**	440,136
From 3 - 4 years	**609,792**	526,091
From 4 - 5 years	**634,378**	597,622
Over 5 years	**3,246,808**	3,781,316
Overdue	**884,086**	828,140
	$ **6,965,448**	$ 7,179,353

4. ACCOUNTS RECEIVABLE FROM ADVANCE PAYMENT PROGRAMS

(000's)	*Agricultural Marketing Programs Act*	*Prairie Grain Advance Payments Act*	*Spring Credit Advance Program*	2002 *Total*	2001 *Total*
Due from Producers					
Principal balances outstanding	$ **71,023**	$ –	$ **321,819**	$ **392,842**	$ 444,617
Due from (to) Government of Canada					
Recovery of interest costs on producers' interest free portion of advances	**1,645**	**(1)**	**2,233**	**3,877**	5,080
Amounts collected from producers and grain companies subsequent to reimbursement by Government of Canada	**(949)**	**(38)**	–	**(987)**	(1,504)
Interest on defaulted accounts collected from producers on behalf of Government of Canada	**(788)**	**(4)**	**(19)**	**(811)**	(1,145)
	(92)	**(43)**	**2,214**	**2,079**	2,431
	$ **70,931**	$ **(43)**	$ **324,033**	$ **394,921**	$ 447,048

The Corporation administers the cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the Government of Canada. The Government guarantees the repayment of advances made to producers, therefore the Corporation is not exposed to credit risk. The Corporation recovers its costs of administering the programs from the Government.

The Government of Canada introduced the *Agricultural Marketing Programs Act* in 1997 to provide producers with cash flow by advancing money for grain stored on the farm. This program replaced a previous Government of Canada program under the *Prairie Grain Advance Payments Act*. The Government of Canada pays interest on advances up to $50,000, and the producer pays interest on any amounts in excess of $50,000.

The Government of Canada introduced the *Spring Credit Advance Program* in the spring of 2000 to assist producers with spring seeding costs. The program, which in the first year enabled producers to receive up to $20,000, now enables producers to receive up to $50,000 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall under the *Agricultural Marketing Programs Act*.

Cash advances issued during the year by the Corporation under these programs totalled $841,879,830, including $509,612,677 issued under the *Agricultural Marketing Programs Act* and $332,267,153 issued under *the Spring Credit Advance Program*.

5. INVENTORY OF GRAIN

Inventory of grain at July 31 is reported at values ultimately expected to be received as sale proceeds as follows:

(000's)	2002	2001
Wheat	$ 531,831	$ 507,421
Durum	282,946	421,549
Barley	4,680	2,690
Designated Barley	86,186	64,144
	$ 905,643	$ 995,804

6. DEFERRED AND PREPAID EXPENSES

(000's)	2002	2001
Prepaid cost of moving inventory to eastern export position	$ 13,914	$ 14,733
Purchase and lease-renewal options on leased hopper cars	4,526	4,860
Deposits on commodity margin accounts	2,948	3,516
Net results of commodity hedging activities applicable to subsequent pool accounts	9,690	(2,997)
Other	1,808	1,097
	$ 32,886	$ 21,209

7. CAPITAL ASSETS

	2002			2001		
(000's)	Cost	Accum Deprec.	Net Book Value	Cost	Accum. Deprec.	Net Book Value
Computer systems development	$ 48,934	$ 19,450	$ 29,484	$ 45,537	$ 14,380	$ 31,157
Hopper cars	83,900	62,925	20,975	84,715	60,712	24,003
Computer equipment	14,557	10,664	3,893	14,253	11,743	2,510
Furniture & equipment	4,610	3,287	1,323	4,815	3,278	1,537
Land, building and improvements	7,982	7,273	709	7,648	7,054	594
Automobiles	563	196	367	556	138	418
Leasehold improvements	159	148	11	195	153	42
	$ 160,705	$ 103,943	$ 56,762	$ 157,719	$ 97,458	$ 60,261

Two thousand hopper cars were purchased by the Corporation in 1979-80 having an original cost of $90,555,620. Of these cars, 147 cars have been wrecked and dismantled, leaving 1,853 still in the fleet. The Corporation is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

8. BORROWINGS

The Corporation issues debt in world capital markets. The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are unconditionally and irrevocably guaranteed by the Minister of Finance on behalf of Her Majesty in right of Canada through an explicit guarantee included in the *Canadian Wheat Board Act*.

Short-term borrowings consist of commercial paper issued by the Corporation in the Canadian, United States and Euro markets and bank loans with maturities less than one year. Foreign exchange risk is mitigated through the use of derivatives. The Corporation uses currency swaps and forward contracts in the same notional amounts and with the same terms as the underlying borrowings to exchange the currency exposure to either the Canadian dollar or the United States dollar.

Long-term borrowings are notes issued in the Euro Medium Term Note market with an original term to maturity between one and fifteen years. The majority of long-term notes are structured securities where interest and/or principal are linked to fluctuations in currency rates and other market references. The Corporation may also call certain notes prior to maturity. The Corporation uses currency or interest rate swap contracts to mitigate currency risk and manage interest rate risk associated with long-term borrowings by ultimately creating a floating rate obligation similar to the Corporation's short-term borrowings. These contracts also ensure that the CWB will receive proceeds from the swap to offset substantially all the foreign exchange fluctuations on the principal and interest payments of the note.

(000's)	Effective Interest Rate (%)	2002	2001
Short-term borrowings	1.68 – 3.08	$ 6,005,296	$ 7,691,161
Long-term borrowings	1.52 – 2.11	1,517,028	229,315
Accrued interest	–	28,333	56,283
Total borrowings	1.52 – 3.08	7,550,657	7,976,759
Less temporary investments	1.50 – 2.75	(214,295)	(331,783)
Net borrowings	1.52 – 3.08	$ 7,336,362	$ 7,644,976

Of the net borrowings at July 31, 2002, $5,364,721,459 represents the Canadian equivalent of $3,389,172,695 that will be repayable in United States funds. Of the net borrowings at July 31, 2001, $5,634,260,258 represents the Canadian equivalent of $3,676,515,666 repayable in United States funds.

These borrowings mature as follows:

(000's)	2002	2001
Amounts due:		
within 1 year	$ 6,067,682	$ 7,762,320
from 1 – 3 years	–	
from 3 - 4 years	23,999	–
from 4 - 5 years	514,442	37,537
over 5 years	944,534	176,902
	$ 7,550,657	$ 7,976,759

After giving effect to interest rate swaps, all borrowings have contractual interest rate repricing dates under 365 days and, as a result, carrying values of these borrowings approximate their fair values.

9. ACCOUNTS PAYABLE & ACCRUED EXPENSES

(000's)	2002	2001
Accounts payable and accrued liabilities	$ 49,353	$ 39,012
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	59,802	74,175
Deferred sales revenue	19,718	25,700
	$ 128,873	$ 138,887

10. LIABILITY TO AGENTS

(000's)	2002	2001
Grain purchased from producers	$ 465,734	$ 526,666
Deferred cash tickets	84,281	67,553
	$ 550,015	$ 594,219

GRAIN PURCHASED FROM PRODUCERS

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to the Corporation by the agents at terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for grain on hand at country elevator points and in transit at July 31 for which delivery to and settlement by the Corporation is to be completed subsequent to the year end date.

DEFERRED CASH TICKETS

Grain companies, acting in the capacity of agents of the Corporation, deposit in trust with the Corporation an amount equal to the value of deferred cash tickets issued to producers for Corporation grain. The Corporation returns these funds to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

11. LIABILITY TO PRODUCERS – UNDISTRIBUTED EARNINGS

Of the undistributed earnings to producers totalling $402,859,044 at July 31, 2002 (2001 - $341,476,449), $209,792,684 (2001 - $233,948,582) was distributed to producers in an interim payment on October 18, 2002. The balance of $193,066,360 (2001 - $107,527,867) will be distributed to producers through final payments and producer car rebates.

12. PROVISION FOR PRODUCER PAYMENT EXPENSES

The amount of $3,687,300 (2001 - $4,768,940) represents the balance of the reserve for producer payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor in Council.

13. SPECIAL ACCOUNT – NET BALANCE OF UNDISTRIBUTED PAYMENT ACCOUNTS

In accordance with the provision of Section 39 of the *Canadian Wheat Board Act*, the Governor in Council may authorize the Corporation to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor in Council, upon the recommendation of the Corporation, may deem to be for the benefit of producers.

The activity in the Special Account is comprised of:

(000's)	2002	2001
Beginning of year	**$ 3,281**	$ 3,337
Transfer from payment accounts	**2,105**	2,037
Expenditures	**(1,185)**	(2,080)
Payments to producers against old payment accounts	**(2)**	(13)
End of year	**$ 4,199**	$ 3,281
Ending balance comprised of:		
Unexpended authorizations	**1,102**	1,927
Not designated for expenditure	**3,097**	1,354
	$ 4,199	$ 3,281

During the year ended July 31, 2002, the balance from payment accounts for 1994 Wheat, 1994 Durum and 1994 Designated Barley were transferred to the Special Account under Order-in-Council P.C. 2002-537.

The program expenditures during the 2001–02 crop year are detailed as follows:

(000's)	*Unexpended, beginning of year*	*Authorized*	*Expended*	*Expired*	*Unexpended, end of year*
Market development program	$ 134	$ –	$ (21)	$ –	$ 113
Scholarship program	40	360	(251)	–	149
Canadian International Grains Institute					
Capital expenditures	143	–	(78)	–	65
Test Baking Facility	423	–	(123)	–	300
Agribusiness Chair – University of Manitoba	300	–	(75)	–	225
Automated Quality Testing	750	–	(500)	–	250
Canadian Malting Barley Technical Centre	137	–	(137)	–	–
	$ 1,927	$ 360	$ (1,185)	$ –	$ 1,102

THE CONTINGENCY FUND

The *Canadian Wheat Board Act* provides for the establishment of a contingency fund. The contingency fund can be populated through a variety of mechanisms such as the results of operations of the producer payment options or other sources of revenue received in the course of operations. The components of the contingency fund are described below:

PRODUCER PAYMENT OPTION PROGRAMS

The Corporation has implemented payment alternatives to producers. The Fixed Price Contract/Basis Price Contract (FPC/BPC) provides producers with the opportunity to lock in a fixed price or basis for all or a portion of their grain prior to the beginning of the crop year. Full payment for the grain is received immediately after delivery and the producer is not eligible for other payments from the pool account. The Early Payment Option (EPO) provides the producer with a greater portion of their expected final pool price at time of delivery, while still eligible for other payments from the pool account.

The surplus or deficit arising from the operation of these programs is transferred to a contingency fund so that net operating results will not impact the pool accounts.

OTHER

As approved by the Board of Directors and as provided for under the Act, interest earnings of $7,114,908 from the 2001-02 barley pool have been transferred to the contingency fund.

The contingency fund balance at July 31, 2002 is detailed as follows:

(000's)	Producer Payment Option Programs Wheat	Barley	Other	2002 Total	2001 Total
Opening surplus, beginning of year	**$ 127**	**$ 218**	**$ –**	**$ 345**	$ –
Transferred from Pool accounts	**–**	**–**	**7,115**	**7,115**	–
Surplus from Producer Payment Option programs	**3,947**	**15**	**–**	**3,962**	345
Closing surplus, end of year	**$ 4,074**	**$ 233**	**$ 7,115**	**$ 11,422**	$ 345

15. LEASE COMMITMENTS

The Corporation administers leases for grain hopper cars for the Government of Canada with lease terms of 25 years expiring in 2006. Of the 1,750 cars leased under the original agreements, 76 have been wrecked and dismantled leaving 1,674 cars in this fleet. All lease costs to the end of the original lease periods are recoverable from the government and not charged to the pool accounts. Total payments associated with these leases for the year ended July 31, 2002 were $17,388,769 (2001 – $17,686,168).

In 1995, the Corporation purchased an option to extend the lease agreement on 250 hopper cars for a five-year term at a bargain lease rate. Effective October 1, 2000, the Corporation exercised this right on the 244 remaining cars. The cost of the option is being amortized over the term of the five–year extension. The lease payments under this lease extension option are not recoverable from the Government of Canada and will be paid directly by the pool accounts. Effective April 2001, the Corporation sublet the remaining 242 cars to a third party for a term expiring October 2005.

Between 1991 and 1995, the Corporation purchased options to acquire 1,550 of the Government of Canada cars at the end of the lease terms in 2006. Of these cars, 68 cars have been wrecked and dismantled, leaving 1,482 cars, which may be purchased at a total cost of $17,504,129 in United States dollars. The cost of these options is recorded in deferred and prepaid expenses.

The Corporation has entered into operating leases for premises and office equipment. Lease terms are for periods ranging from one to six years, expiring between August 2002 and October 2007. The Corporation has the option to renew most of these leases for additional terms ranging from one to three years. Total lease payments for premises and office equipment expensed in the year ended July 31, 2002 were $1,142,627 (2001 – $1,128,252).

Lease costs on premises and office equipment are charged to administrative expenses. Commitments under operating leases are as follows:

(000's)	Hopper Cars (US$)	Premises & Office Equipment (Cdn $)
2003	$ 456	$ 842
2004	456	417
2005	456	212
2006	76	135
2007	–	133
After 2007	–	27

16. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

The Corporation enters into interest rate hedging transactions to manage its funding costs and to implement asset/liability management strategies designed to reduce exposure resulting from currency and interest rate fluctuations. These transactions include interest rate swap contracts and cross-currency interest rate swap contracts.

The Corporation also enters into foreign exchange forward and currency swap agreements with financial institutions to hedge currency exposure arising primarily from grain sales.

As at July 31, the total notional amount of these off balance sheet financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2002			2001		
(000's)	Notional Amounts	Net Fair Value	Credit Risk	Notional Amounts	Net Fair Value	Credit Risk
Interest rate contracts						
Single-currency interest rate swaps	**$ 838,620**	**$ 886**	**$ 2,713**	$ 253,016	$ (1,610)	$ 112
Cross-currency interest rate swaps	**820,552**	**34,944**	**36,089**	206,328	(1,945)	10,342
	1,659,172	**35,830**	**38,802**	459,344	(3,555)	10,454
Foreign exchange contracts						
Forwards	**644,437**	**(8,952)**	**709**	721,443	855	2,259
Currency swaps	**182,949**	**10,902**	**10,902**	1,256,408	3,839	6,827
	827,386	**1,950**	**11,611**	1,977,851	4,694	9,086
	$ 2,486,558	**$ 37,780**	**$ 50,413**	$ 2,437,195	$ 1,139	$ 19,540

As of the statement date, interest rate swap contracts with notional amounts outstanding of $176,197,348 and all foreign exchange contracts mature within one year. The interest rate swap contracts with maturities between one and five years and beyond five years had notional amounts outstanding of $538,441,072 and $944,533,842 respectively. The interest rate swap contracts rates ranged between 1.52% and 2.80%.

The fair value of interest rate and foreign exchange contracts refers to the estimated net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies including net present value analysis and quoted market prices where available. These estimates of fair value are affected by the assumptions used and as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The Corporation is only exposed to credit risk on contracts with a positive fair value. The credit risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the financial risk management guidelines approved by the Department of Finance. Master netting agreements are used to reduce credit risk from potential counterparty default. The largest notional amount contracted with any institution as at July 31, 2002 was $1,391,130,666 (2001 – $425,210,046) and the largest credit risk with any institution as at July 31, 2002 was $24,759,486 (2001 – $773,394).

[illegible]

(000's, except tonnes)	2001–02 Tonnes	2001–02 Amount	2000–01 Tonnes	2000–01 Amount
Wheat				
Disposition of grain				
Shipped prior to July 31	**12 678 813**	**$ 2,666,235**	13 579 509	$ 2,640,882
Shipped subsequent to July 31	–	–	1 234 027	234,529
Weight losses in transit and drying	**652**	–	777	–
Total disposition of grain	**12 679 465**	**2,666,235**	14 814 313	2,875,411
Add grain sold to subsequent pool account	**2 136 847**	**531,831**	1 430 773	272,892
Gross sales	**14 816 312**	**3,198,066**	16 245 086	3,148,303
Less sales used to value prior pool account	**(1 430 773)**	**(272,892)**	(2 241 631)	(405,634)
	13 385 539	**2,925,174**	14 003 455	2,742,669
Deduct cost of grain purchased from other than producers	**(54 887)**	**(9,986)**	(42 816)	(6,733)
Revenue	**13 330 652**	**$ 2,915,188**	13 960 639	$ 2,735,936
Durum				
Disposition of grain				
Shipped prior to July 31	**3 574 823**	**$ 973,141**	3 391 948	$ 844,489
Shipped subsequent to July 31	–	–	272 771	71,816
Weight losses in transit and drying	**775**	–	1 186	–
Total disposition of grain	**3 575 598**	**973,141**	3 665 905	916,305
Add grain sold to subsequent pool account	**1 038 583**	**282,946**	1 350 461	349,733
Gross sales	**4 614 181**	**1,256,087**	5 016 366	1,266,038
Less sales used to value prior pool account	**(1 350 461)**	**(349,733)**	(1 332 145)	(293,152)
	3 263 720	**906,354**	3 684 221	972,886
Deduct cost of grain purchased from other than producers	**(17 351)**	**(1,544)**	(18 878)	(2,995)
Revenue	**3 246 369**	**$ 904,810**	3 665 343	$ 969,891
Barley				
Disposition of grain				
Shipped prior to July 31	**37 787**	**$ 6,078**	608 157	$ 83,680
Shipped subsequent to July 31	–	–	6,623	1,004
Weight losses in transit and drying	–	–	168	–
Total disposition of grain	**37 787**	**6,078**	614 948	84,684
Add grain sold to subsequent pool account	**23 944**	**4,680**	10 728	1,686
Gross sales	**61 731**	**10,758**	625 676	86,370
Less sales used to value prior pool account	**(10 728)**	**(1,686)**	(167 357)	(22,800)
	51 003	**9,072**	458 319	63,570
Deduct cost of grain purchased from other than producers	**3 370**	**433**	(4 246)	(395)
Revenue	**54 373**	**$ 9,505**	454 073	$ 63,175
Designated Barley				
Disposition of grain				
Shipped prior to July 31	**1 881 849**	**$ 401,373**	2 195 671	$ 439,843
Shipped subsequent to July 31	**144 343**	**28,943**	224 869	45,843
Weight losses in transit and drying	–	–	–	–
Total disposition of grain	**2 026 192**	**430,316**	2 420 540	485,686
Add grain sold to subsequent pool account	**272 291**	**57,243**	93 390	18,301
Gross sales	**2 298 483**	**487,559**	2 513 930	503,987
Less sales used to value prior pool account	**(93 390)**	**(18,301)**	(236 896)	(44,853)
	2 205 093	**469,258**	2 277 034	459,134
Deduct cost of grain purchased from other than producers	**(35)**	**158**	(3,546)	(462)
Revenue	**2 205 058**	**$ 469,416**	2 273 488	$ 458,672

18. ADMINISTRATIVE EXPENSES

(000's)		2002		2001
Administrative expenses for fiscal year ended July 31	$	**61,253**	$	65,888
Current fiscal year's expense related to administration of the prior year's pool accounts		**(22,256)**		(21,219)
Subsequent fiscal year's expense related to administration of the current year's pool accounts (estimated)		**11,993**		22,256
Provision for expenses related to administration of the producer payment accounts		**(286)**		(317)
Prior fiscal year's expense related to administration of the current year's payment option programs		**148**		191
Current fiscal year's expense related to administration of the payment option programs		**(323)**		(216)
Current fiscal year's expenses related to administration of the subsequent year's payment option programs		**(83)**		(148)
Allocated to current pool accounts	$	**50,446**	$	66,435
Allocated as follows:				
Wheat	$	**35,708**	$	45,545
Durum		**8,705**		11,962
Barley		**146**		1,511
Designated Barley		**5,887**		7,417
	$	**50,446**	$	66,435

The administrative expenses reported in the Statement of Administrative Expenses are the expenses incurred during the fiscal year ended July 31. Administrative expenses, except for that portion of such expenses attributable to distributing final payments to producers and incremental costs related to payment option programs, are allocated to each pool account on the basis of relative tonnage.

The expenses allocated to the current pool accounts include an allocation of the estimated expenses associated with marketing the current crop beyond July 31. The administration expenses charged to the producer payment option programs include amounts deferred from the prior fiscal year that related to the administration of the current year's programs.

19. EMPLOYEE FUTURE BENEFITS

Employee future benefits relate to the defined benefit plan and the other post-employment benefits.

PENSION PLAN

The Corporation expensed $ 3,719,364 (2001 - $3,353,298) as its contribution to the pension plan.

OTHER POST-EMPLOYMENT BENEFITS

The following tables present information related to post-employment benefit plans provided by the Corporation, including amounts recorded on the Balance Sheet and the components of the cost of net benefits for the period.

The accrued benefit obligation, and resulting plan deficit, at July 31, 2002, as calculated, is $17,891,411. The accrued benefit liability included on the Corporation's Balance Sheet is:

(000's)		2002		2001
Accrued benefit obligation, beginning of year	$	**4,255**	$	3,952
Current service cost		**591**		582
Interest cost		**1,098**		1,140
Benefits paid		**(825)**		(2,331)
Amortization of transitional obligation		**912**		912
Accrued benefit obligation, end of year	$	**6,031**	$	4,255

The Corporation's expense with respect to other post-employment benefits is:

(000's)		2002		2001
Current service cost	$	**591**	$	582
Interest cost		**1,098**		1,140
Amortization of transitional obligation		**912**		912
Total post-employment benefit expense included in the Statement of Administrative Expenses	$	**2,601**	$	2,634

The weighted-average assumptions at the measurement date used in the calculation of the Corporation's benefit obligation are shown in the following table:

(000's)	2002	2001
Discount rate	**6.5%**	6.8%
Rate of compensation increase	**4.0%**	4.0%

For measurement purposes, benefits provided are assumed to increase at a rate of 9% for 2002 grading down by 1% per year to an ultimate level of 3% per annum in 2008.

20. CONTINGENT LIABILITY

On September 13, 2002, the North Dakota Wheat Commission filed anti-dumping and countervailing duty petitions with respect to Canadian hard spring wheat and durum. At this time, it is not possible to assess the financial impact of the challenge. The Corporation believes that the action has no merit and will vigorously defend it.

21. COMPARATIVE FIGURES

Certain of the prior year's figures have been restated to conform with the current year's presentation.

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CWB

Prairie strong, worldwide

THE CANADIAN WHEAT BOARD

2002-03 ANNUAL REPORT

CWB

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CWB

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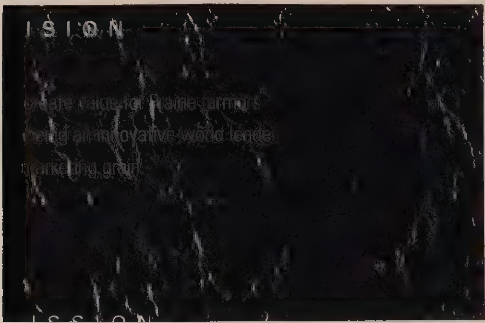
CONTENTS

VISION

To create value for Prairie farmers by being an innovative world leader in marketing grain.

MISSION

The CWB markets quality products and services in order to maximize returns to western Canadian grain producers.



The CWB markets western Canadian wheat and barley in Canada and throughout the world. All sales revenue minus marketing costs is returned to farmers. The CWB is controlled by a board of directors that is comprised of 10 farmer-elected members and five federal government appointees. As a major international grain trader and a major earner of foreign exchange, the CWB enables Prairie wheat and barley producers to go head-to-head with other major players in the grain industry.

	2002-03	2001-02	2000-01	1999-00	1998-99
Combined Pool Operating Results ($ millions)					
Revenue	**$ 3,339.9**	$4,379.2	$4,220.9	$4,457.2	$4,010.7
Direct costs	**318.7**	384.5	350.5	317.8	295.9
Net revenue from operations	**3,021.2**	3,994.7	3,870.4	4,139.4	3,714.8
Other income	**132.7**	188.5	179.9	178.7	162.8
Net interest earnings	**54.8**	91.6	75.2	71.0	72.5
Administrative expenses	**(54.1)**	(50.4)	(66.4)	(63.8)	(55.2)
Grain industry organizations	**(1.8)**	(1.7)	(1.7)	(1.7)	(1.7)
Earnings for distribution	**$ 3,152.8**	$4,222.7	$ 4,057.4	$4,323.6	$3,893.2
Receipts from Producers (000 tonnes)					
Wheat	**8 696**	13 331	13 961	16 427	12 513
Durum	**3 804**	3 246	3 665	3 976	4 905
Barley	**40**	54	454	672	277
Designated Barley	**891**	2 205	2 273	2 554	1 922
Total	**13 431**	18 836	20 353	23 629	19 617

A Message from the Chair of the board of directors and the President and CEO

2002-03 was a tough crop year.

This statement is as true for farmers across Western Canada as it is for the CWB.

In 2002, yields in many areas were decimated by drought and grasshoppers. When general rains finally came to the Prairies in early August, they came at the worst possible time, delaying harvesting operations, sometimes until the spring. Meanwhile, on international markets, countries which until recently were still purchasing large quantities of grain, namely those of the former Soviet Union, were grabbing a significant share of the world grain trade by selling product at values far below North American prices. Compounding this was the European Union's decision to match these values through the use of export subsidies, and the rapid and unprecedented devaluation of the American dollar compared to our own currency. Trade action was taken in the U.S. against imports of Canadian spring wheat and durum. And to top it all off – as if this was not enough – the BSE crisis broke in late spring, sending cattle and feed grain markets into a turmoil from which they have yet to emerge.

The result: a crop which overall was about 40 per cent less than average with a much poorer grade pattern than what we usually have in Western Canada; a late harvest and uncertainty about what we had to sell until late in the year; and markets which were unable to maintain the strength they demonstrated in early fall.

The combination of these factors had a devastating effect on many farmers' income. It bears witness to the resilience and strength of Prairie agriculture that, even in areas where they harvested close to nothing, farmers found ways to stay in business and keep their operations afloat.

The CWB's annual report this year begins with the account of how farm families from throughout Western Canada coped with the adversity that they faced in 2002-03. While each of their stories is unique, certain common themes emerge. One is that farmers find opportunities to turn adversity – whether it is a poor growing season or Prairie-wide consolidation of grain handling facilities – into growth opportunities. This is a message that we all need to take to heart and one that the CWB has incorporated as we move forward.

Highlights of the 2002-03 crop year include:

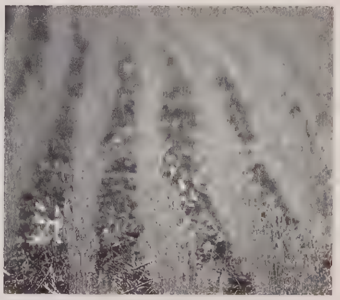
- Over 98 per cent of what farmers offered for sale through the CWB was accepted;
- Pool returns were at historically high levels;
- The needs of our most discriminating and highest paying customers were met in spite of production shortfalls and a poor grade pattern;
- A new transportation and grain-handling agreement with the grain companies was put in place;
- We cut our costs;
- We developed more payment options for farmers;
- We encouraged the production of hard white wheat through our market development program;
- We fought the imposition of tariffs by the U.S. and succeeded in having those on durum removed early in 2003-04;

- We worked with many farm organizations to ensure that unconfined release of Roundup Ready wheat would not occur until a list of well-defined conditions were met; and
- In conjunction with a number of farm organizations, we lobbied the federal government to make the rail transportation system more competitive.

These are significant accomplishments in a year like 2002-03. They demonstrate the extent to which farmers and the CWB are committed to the grain industry in Western Canada. We should be proud of what we have done together and of the foundation that we have laid for the future of the grain sector.

At the same time, the extraordinary circumstances that we faced in 2002-03 led to a deficit in the wheat pool. This means that there were no final payments for farmers in the wheat pool account and that the Government of Canada will cover the deficit by virtue of its guarantee of CWB payments. The events that led to this shortfall are detailed in the Management Discussion and Analysis section. After a rigorous review of these events, the board of directors is satisfied with the decisions that were made by the CWB in 2002-03. By the same token, measures, including improvements to how we gather information on farmers' delivery intentions, have been undertaken so that we are better able to cope with this type of adversity in the future.

In summary, 2002-03 demonstrates again the extraordinary resilience and energy of Western Canada and its grain farmers. It was a tough year that took its toll. We faced up to it as best we could and the grain sector in Western Canada will be around to face future challenges and to capitalize on future opportunities. We applaud Prairie farmers for their courage and innovation and we look forward to serving their marketing needs in the future.



Ken Ritter

Ken Ritter
Chair, board of directors

Adrián Measner

Adrian C. Measner
President and Chief Executive Officer

Farm *faces*

Facing up to adversity

Opportunities sur*facing*...

Farming is never easy. But there are some years where farmers' mettle is tested even more than usual. The 2002-03 crop year was one of those years. It was extraordinary in many ways, and especially in how so many unfortunate circumstances happened all at once: drought; a late and wet harvest; a sudden rise in the value of the Canadian dollar; and the discovery of one case of bovine spongiform encephalopathy (BSE). Each of these took money out of the pockets of western Canadian farmers and made it harder for them to make a living, let alone get ahead.

Each farm family has a story to tell about 2002-03. Here are five gathered from among the almost 85,000 permit book holders for whom the CWB marketed grain. While there would be many more to tell, these five represent the range of adversity that was faced as Prairie farmers struggled with lack of precipitation and a harvest that seemed to drag out endlessly. Most importantly, they tell of how Prairie farmers have put the challenges of 2002-03 behind them and how they are working to secure their future in agriculture, either by moving up the value chain, cutting costs or collaborating with their neighbours to provide themselves with new opportunities.

As the marketing agent for western Canadian wheat, durum and barley, the CWB is proud to serve the needs of men and women like these who earn their living from the land. We want to pay tribute to their ingenuity, their resourcefulness and their commitment. We also want to emulate how they have sought out meaningful ways to adapt to the changing agricultural environment and how they have successfully taken advantage of emerging opportunities. They have faced up to adversity and seized new opportunities – the CWB is committed to doing the same.

NORMA & DON ROSS

MANNVILLE, ALBERTA

A breed apart

Throughout the drought of 2002, the region between Saskatoon and Edmonton was often referred to as being "the hardest hit." Don and Norma Ross, who farm with their family north of Mannville, Alberta, will confirm that this was the case. Their farm received a grand total of three and one-half inches of precipitation over the course of the 2002 growing season, most of it in one-tenth increments that evaporated before they could do any good. The wheat yielded seven bushels per acre, the barley six, the peas eight and the canola yielded nothing at all. In an area where average wheat yields are 40 bushels per acre and barley typically produces up to 70, the 2002 crop was a complete disaster.

Pastures did not fare any better. There was not enough grass for Don's 100 cow-calf pairs. He baled whatever hay he could salvage from low spots but when all was said and done, it was clear that he needed more feed for his cattle. Thirty-two pairs were dispensed to pastures in northern Alberta. Hay from the same area was purchased and trucked to Mannville. Don put his name in the draw for donations of hay from Ontario but was not selected. He regrets that farmers were not asked to pay at least market value for the eastern hay. He thinks $50 per tonne would have been a fair price and would have helped to bring a lot more hay out west. As it was, many people were forced to scramble to find feed elsewhere or even sell their herds.

It is pointless to ask Don what positives a farmer can find in a year where revenue is decimated and costs skyrocket because you are hauling cattle and feed all over the countryside to keep your operation going. Add in the BSE crisis and the subsequent closing of the border to exports of Canadian cattle and you have a recipe that has the potential to sour anyone on farming. Yet, Don maintains that there is no better way of life. He talks about the satisfaction of growing crops and raising livestock. And he talks about the freedom to make his own choices and to do what he thinks is right for his operation.

There are things that can and should be done to help farmers, especially when they are hit with disaster. Don points to the BSE crisis as one example. "We could turn this thing to our advantage," he says. "Let's test every animal. Let's become the place that produces the safest food anywhere in the world and let's market ourselves that way." This would benefit everyone: the consumer, the trucker, the packing plant, the government and the farmer. It makes sense then, as far as Don is concerned, that everyone should contribute to establishing the highest possible food safety standards. And it makes sense, as a result, that government should pay for the cost of testing animals that are slaughtered. What's more, this type of support takes nothing away from the freedom and independence that farmers like Don cherish so much.

Seeing opportunities in the midst of setbacks – this is second nature to farmers. It has to be. Between the weather, the markets, the Canadian dollar and ever-rising input costs, there is always some dark cloud on the horizon. That's why Don says that farmers are a breed apart. In the face of adversity, they find reason to believe that better days are bound to come, sooner or later.

One voice more easily heard

As head of the Alberta Soft Wheat Producers' Commission, Lynn Jacobson believes in the importance of working together to achieve stability and prosperity. He leads a producer group where farmers cooperate to maintain supply of a particular crop in balance with the domestic market. There are no quotas or production contracts among producers of soft white wheat. But when the international price for soft white wheat dropped substantially several years ago, there was a realization that, unless production was scaled back, the economic benefits of growing and selling soft white wheat would disappear.

Soft white wheat is grown in a fairly concentrated area in southeast Alberta. It is somewhat less tolerant to drought than other types of wheat and is therefore grown for the most part under irrigation. Approximately 34,000 acres of soft white spring wheat were grown in 2002, down from 200,000 acres 10 years ago. In 2002, Lynn and his wife Elaine grew 300 acres of soft white wheat (AC Reed) on their own farm north of Enchant along with 600 acres of Mackenzie, a CWRS variety. Although they have access to irrigation on most of the acreage they farm, it was not needed much in 2002. Unlike the majority of areas throughout Western Canada, they were actually too wet. With the exception of July that was hot and dry, the growing and harvesting periods were marred with excessive amounts of rain. Low areas drowned. Their entire edible bean crop – about 130 acres worth – was lost. The harvest, which took four months to complete, actually lasted longer than the crop took to grow. The wheat crop suffered extensive damage as a result.

A year like 2002 – with poor yields, poor quality, declining markets, a rising dollar and the discovery of BSE in a Prairie cow – only reinforces Lynn's conviction that "sometimes, you have to get down from the tractor and talk to government". Through his involvement with the Commission, he has met extensively with government officials. He believes that there are things that government must do to create an environment where farmers can succeed. Having a sensible, responsive risk management program for farmers is one of them. He also believes that governments need to do more to attract businesses to rural areas. And he thinks that there is a need for greater public investment in agriculture, especially in light of the shortage of young farmers able and willing to ensure the renewal of agriculture in Western Canada.

Lynn thinks that farmers could accomplish some very real progress by taking a page from the Commission's book. The farmers who grow soft white wheat have put aside narrow self-interest in favour of cooperation and the well-being of their industry as a whole. He believes that, if the farmers of Western Canada can learn to put aside their differences and speak with one, coherent, consistent voice, there is a real opportunity – especially given the federal government's commitment to deal with western alienation – to make things better for themselves.

LYNN & ELAINE JACOBSON

ENCHANT, ALBERTA

MARK ANDERSON

SHAUNAVON, SASKATCHEWAN

Margin matters

Shaunavon, Saskatchewan is not known for its abundant rainfall. Situated in the middle of the Palliser Triangle, a region once designated as too dry to sustain annual crop production, its farmers are used to dealing with drought. They have adapted their crop rotations and cropping practices to their climate and usually harvest some of the highest quality wheat and durum in Western Canada because of the dry conditions. It is somewhat surprising then to discover, when you speak to Mark Anderson, that in a year like 2002 when much of the rest of his province was parched, his crops were benefiting from weekly rains of one inch or more. Mark farms about 3,000 acres near Shaunavon and until the excessive rains hit in August, the 2002 crop year was looking very good. He was actually thinking, he says, that it might be a year where he hit everything right, where the crop would be good and the prices, because of production problems elsewhere, would be reasonable.

He was not prepared for what happened next. "We're used to dealing with drought here but what do you do when it is too wet?" Mark asks. Heavy rains began in August. As they continued throughout the following months, quality and prices fell right along with them. All his grain came off the field in tough condition. Yields were generally decent but quality was far less than normal. There was blight and black point and even some fairly high levels of fusarium, especially in the durum, something that Mark had not seen to this extent before. It was November before Mark finally put the combine away for good.

What could have been a year of real progress for Mark turned out to be another case of tight margins and "just getting by". The problem, he says, is that "the input people seem to have their magic figure for margins." As soon as gross revenue shows any sign of increasing, input costs respond accordingly, forcing farmers to produce more and more just to stay afloat. "We've been told to get lean and mean," summarizes Mark. "Well, the lean and mean farmers are in danger of turning anorexic!"

Instead of producing more, farmers like Mark are turning their attention to shoring up their margins.

First of all, they have diversified. Mark comments how, 15 years ago, all you would see if you drove through southwest Saskatchewan was wheat and durum. Now there are fields of peas, chickpeas, lentils, canola and mustard. In rotation with cereals, these crops offer the possibility of reducing fertilizer costs and reducing price risk.

Twenty-one local farmer-investors have also set up a producer car loading facility that allows them to reduce their handling costs and improve the grades they get for their grain. In 2002-03, Mark shipped everything he sold by producer car through this facility. In the case of his durum crop, it was cleaned before shipping. This enabled him to get a No.3 CWAD grade for his durum instead of the No.5 CWAD that he believes it would have graded had he simply delivered it to the elevator.

Their next project may well be saving their rail line. There is some concern in Mark's community over the fact that the short-line railway operating between Shaunavon and Assiniboia has given notice that it is selling the line. The producer car group, together with other farmers all the way along the line, is trying to put together the necessary capital to keep the line going. This is key to maintaining as many local businesses as possible. With margins as tight as they are, farmers cannot afford to drive halfway across the province to obtain the goods and services they need to run their businesses.

With this can-do attitude, farmers are finding opportunities in the wake of the consolidations and abandonments that have occurred throughout Western Canada. "When others pull out of our community," Mark says, "farmers step up and try to make a go of it."

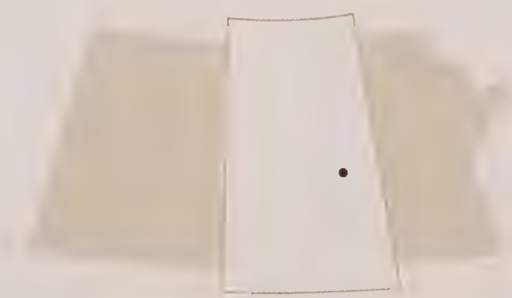
Filling the void

Farmers file steadily in and out of the producer car loading facility that Francis Rodier manages in Arborfield, Saskatchewan. Before it was sold to 50 farmers from the Arborfield area, it belonged to Agricore United, one of four different grain companies that were operating facilities in Arborfield at one point in time. Now, the producer car loading facility is the only game in town. The next closest facility is 15 miles away.

Francis expects to load 130 producer cars at this location over the course of the 2003-04 crop year. This is in stark contrast to 2002-03 where only four cars were loaded. The 2002 crop in the Arborfield area was very poor. It was extremely dry with most people only harvesting enough grain to replenish their supply of seed for the following year. Yields on the 2,120 acres that Francis and his brother farm were far below average. Their wheat ran four to seven bushels per acre where they would typically get 45 to 50 and their barley yielded only 15 bushels per acre. The 450 acres that they have planted to alfalfa seed gave them just under 90 pounds per acre compared to the 325 pounds that they usually harvest. Francis points out that in his community, the farmers who did the best in 2002 are those who did not actually harvest a crop for grain. They allowed the regrowth that occurred when rain finally came to their area in August to be taken off as green feed by the local dehydration plant – on whose board Francis also sits – and made into pellets for the feed market, both domestic and export.

Farmers in Arborfield adapt and innovate – that is the message you cannot help but take away from Francis and the other farmers delivering grain to the facility that they own and run themselves. In addition to diversifying into enterprises as different as leafcutter bees and Saskatoon berries, as Francis has done, they have stepped in to fill the void when various grain and agricultural input companies have walked away from their town. The producer car loading facility is one example. It enables farmers to save an estimated $6.70 per tonne on the grain they ship through the facility. Then there are the grade improvements and the extra protein premiums they pocket because they are loading their own cars.

Their ability to work together for the good of their community has been such a positive experience that they are looking at taking on new challenges. They are considering taking on a fertilizer blending facility, for example, or even banding together to increase their purchasing power when it comes to farm inputs. Is this just a return to the spirit of cooperation that, in the past, led Prairie pioneers to establish pools and cooperatives? It is partly that, Francis answers, but he quickly adds that this model is different. It is a corporate model and the farmers who come together in Arborfield to sell their grain and dehydrate hay are business people who believe that by working and investing together, they stand a better chance of making a profit. Farming is a tough way to earn a living in Arborfield, as it is throughout the Prairies. Working together is just good business when times are tough.



FRANCIS & PAT RODIER

ARBORFIELD, SASKATCHEWAN

LISA, KARL, GARY & ELISE NEUMANN

WALDERSEE, MANITOBA

Reality 101

The 2002 crop in the Parkland region of Manitoba looked pretty good. Gary and Lisa Neumann farm close to the small town of Waldersee, about 30 kilometers from the western shore of Lake Manitoba. With prices rallying in late summer, they were looking forward to an unusual crop, a crop where good yields and good prices actually come together. Although they had struggled to receive enough moisture throughout the growing season, their 800 acres of wheat, barley, oats and canola were set to deliver above average yields. Then the humid, misty weather set in. Two weeks later, the yields were still there – 45 bushels per acre in AC Cora wheat – but the quality had been severely affected. All the cereals had suffered sprout damage. There was mildew and discolouration, too. The result: a crop that could have achieved milling values had to be delivered into the feed market.

The reality of grain farming on the Canadian Prairies is that yields, quality and good prices do not often coincide. This is a lesson that Gary and Lisa have learned over what will soon be a 20-year farming career. It is a lesson that has them wondering whether or not the farm will generate enough income to pay for their children's education and for their own future when their farming careers come to an end. It also has them wondering if the small grain farmer has a future. These concerns are driven home by the disappearance of delivery points. Gary and Lisa say that they used to have 12 elevators in an area that is now serviced by two high through-puts and one wooden facility. Those through-put elevators are over 60 miles away. Where those facilities were often owned by cooperatives which tended to treat all farmers equally, they point out, large farms now appear to get first shot at delivering and better grades.

But Gary and Lisa are quite intent on fighting back. Their strategy is simple: if you do not want to compete on volume, move up the food supply chain and get more of the consumers' dollar. There are any number of possibilities that farmers can pursue, from home-processing of grain products to market gardening to farm tours. Gary and Lisa have chosen bison. Two years ago, they purchased their first animals. Now, they are on the verge of having bison meat to sell. Their intention is to sell their product directly to the public and to find local businesses that are willing to retail the meat. It is value-added processing on a family-farm scale, the type that Prairie farmers have been doing for years. And, for Gary and Lisa, it has put the fun back into farming.

Would they encourage their children to farm? "We won't discourage them", Gary says. But farming is tough. When Gary and Lisa look over the fence at where they are, compared to where they could be if they were not farming, it is sometimes difficult to know if they made the right choice. It is certainly not a choice that they would force on someone else, especially their children.

Corporate Governance

CWB performance highlights

The CWB's performance is measured in terms of its achievements in four distinct areas: services to farmers; customer services; supporting the CWB mandate; and strengthening corporate performance.

FARMER

INITIATIVES:

Enhance payment options

- Contracted 183 181 tonnes of grain under CWB Producer Payment Options.
- Extended the Fixed Price Contract to all wheat, durum and feed barley.
- Extended the Early Payment Option to all wheat and feed barley.

Enhance delivery policy

- Reduced the number of delivery contract series from four to three.
- Increased the minimum delivery provision to 45 tonnes and replaced the initial acreage-based delivery calls with contract delivery opportunities.

Improve farmer contact

- Held 40 Corporate Accountability Meetings across the Prairies to provide opportunities for farmer interaction with their elected directors.
- Increased interaction between CWB staff and directors and farm organizations.

Utilize e-business to improve farmer services

- Offered e-contracting so that farmers could submit, change or view delivery contracts on-line.
- Undertook the development of additional on-line services such as e-advances to be launched in 2004.

Provide new transportation and marketing services

- Administered 372 producer cars.
- Established 13 new service agents to provide administrative and contracting services to farmers.

Benchmark CWB operations

- Set performance targets (benchmarks) for terminal and country storage, vessel despatch, adverse freight and the application of grades to sales contracts.

Review presentation of CWB financial statements

- Implemented new presentation of financial statements for the 2002-03 annual report.

CUSTOMER

INITIATIVES:

Enhance/maintain quality control

- Implemented an IT system for Market Development Contract Programs (MDCP), resulting in significantly improved ability to effectively manage contracts, quality testing results and logistics. This positioned the CWB to implement more sophisticated future quality control system requirements.
- Developed a detailed set of conditions for the release of genetically-modified wheat in Canada supported by a broad farmer/industry stakeholder group. In response to the stakeholder group's work, the Canadian government will conduct consultations in 2003-04 to consider the possibility of regulatory change, including the addition of a cost-benefit analysis to the regulatory process.

Encourage an increase in supply of malting barley to meet projected trade

- Surveyed farmers on how the production of malting barley could be increased.
- Scheduled a series of malting barley meetings for the fall of 2003.

MANDATE

INITIATIVES:

Create stronger interface with federal, provincial and local stakeholders

- Held approximately 50 meetings with elected officials and staff at federal and provincial levels of government. CWB officials advocated for reduced subsidies in competing countries, competition in grain transportation and improvements to the approval process for genetically-modified crops.

Strengthen CWB position in international trade agreements

- Ensured that CWB views and positions continued to be carried forward by Government of Canada trade negotiators at the World Trade Organization and in other bilateral and multilateral forums.

CORPORATE

INITIATIVES:

Develop and implement HR planning

- Implemented the first phase of a succession planning model to identify employee leadership talent for executive positions.
- Implemented a management development program to develop and enhance leadership capabilities throughout the organization.
- Developed a new pension plan that is competitive, flexible and cost-effective.

Fully utilize IT technology to facilitate efficiency, effectiveness and change

- Approved a long-term information technology strategic plan.
- Achieved significant progress towards a cost-effective and flexible technical environment.

Farmer-controlled board of directors

The CWB board of directors consists of 10 farmer-elected members and five federal government appointees. This governance structure has been in existence since 1998. It places control of the CWB firmly in farmers' hands and ensures that the CWB is accountable to farmers for everything it does.

Pictured l. to r., (front row): Larry Hill, Wilfred (Butch) Harder (seated), Ken Ritter, Allen Oberg (seated), V. Lynne Pearson, Bill Nicholson; (middle row): Art Macklin, Rod Flaman, Adrian Measner, Bonnie DuPont, James Chatenay; (back row): Ross L. Keith, Dwayne Anderson, Ian McCreary, Edward Zinger

ART MACKLIN (District 1):
Art operates a 1,200-acre grain and cattle farm north-east of Grande Prairie, Alberta. Active in church and community, he is a past president of the National Farmers Union and served as chair of the former CWB Advisory Committee.

JAMES CHATENAY (District 2):
Jim operates a family farm near Penhold, Alberta. He is a graduate of Olds Agricultural College and served six years as director of the Alberta Charolais Association.

ADRIAN MEASNER, CWB President and Chief Executive Officer (Appointed):
Raised on a farm near Holdfast, Saskatchewan, Adrian was educated at the University of Saskatchewan. He has 29 years of experience in the grain industry, having held a variety of positions at the CWB. He was also previously involved in a small grain farm north of Winnipeg, Manitoba.

LARRY HILL (District 3):
Larry farms 5,200 acres near Swift Current, Saskatchewan. A graduate of both Agricultural Engineering and Farm Business Management at the University of Saskatchewan, he has worked for Saskatchewan Agriculture.

KEN RITTER, CWB Chair (District 4):
Ken operates a family farm near Kindersley, Saskatchewan. In addition to farming, he has practiced law and taught school in both Canada and Australia. He has been the chair of the CWB's board of directors since its inception and has served on both the National Transportation Agency and the Saskatchewan Surface Rights Arbitration Board.

BONNIE DUPONT (Appointed):
A senior vice-president at Calgary's Enbridge Inc., Bonnie has expertise in energy transportation and grain handling and has held senior positions with Alberta Wheat Pool and Saskatchewan Wheat Pool. She holds a Bachelor of Social Work from the University of Regina with majors in Program Administration and Evaluation Psychology, and a Master's in Human Resources Management from the University of Calgary.

ALLEN OBERG (District 5):
Allen and his brother, John, run a grain and cattle operation near Forestburg, Alberta. He has worked for Alberta Wheat Pool and served on its board of directors for 11 years. He has also served on the federal minister's Advisory Committee on Cooperatives.

IAN McCREARY (District 6):
Ian was born and raised on the mixed farm near Bladworth, Saskatchewan that he operates today. He holds a Master's degree in Agricultural Economics and has previously worked at the CWB as a marketing manager and policy analyst. Ian's international experience also includes managing a pilot project on food aid and food markets with the Canadian Foodgrains Bank.

EDWARD ZINGER (Appointed):
Ed worked for the Bank of Montreal in Western Canada and Toronto for more than 39 years. He has extensive experience in corporate, government and investment banking and is a Fellow of the Institute of Canadian Bankers. He is also a graduate of the Senior Executive Program of the Banff School of Advanced Management.

DWAYNE ANDERSON (District 7):
Dwayne and his wife, Sheila, operate a 2,600-acre farm in the Fosston/Rose Valley area of Saskatchewan. He served 10 years as President and CEO of North East Terminal Ltd., a farmer-owned inland grain terminal and crop input business, and was also founding chair of the Inland Terminal Association of Canada.

ROD FLAMAN (District 8):
Rod farms with his wife, Jeanne, just south of the Qu'Appelle Valley near Edenwold, Saskatchewan. They produce a variety of field and horticultural crops, including certified organic grain. Educated at the University of Saskatchewan, Rod has served as a director of Terminal 22 at Balcarres, Saskatchewan and the Saskatchewan Fruit Growers Association.

BILL NICHOLSON (District 9):
Bill and his family operate a 4,300-acre grain farm near Shoal Lake, Manitoba. He has a degree in Agricultural Engineering and has worked in the farm machinery industry. In addition to serving on the former Advisory Committee to the CWB, Bill has been a Manitoba Pool delegate, represented farmers on the Prairie Agricultural Machinery Institute Council and is president of the local credit union board.

WILFRED (BUTCH) HARDER (District 10):
Wilfred (Butch) operates a 3,900-acre farm near Lowe Farm and a 1,200-acre farm at Headingley, Manitoba. He also served on the former CWB Advisory Committee and as a director with Manitoba Pool Elevators and the Canadian Co-operative Association. Wilfred is also a past director of XCAN Grain and Western Co-op Fertilizer.

ROSS L. KEITH (Appointed):
Ross is president of the Nicor Group property development company and is a former partner in the Regina law firm of MacLean-Keith. He has degrees from the University of Regina in Arts, Commerce and Law. Ross is the president of a third-generation family farming operation in southern Saskatchewan.

V. LYNNE PEARSON (Appointed):
Lynne is the Dean of the College of Commerce at the University of Saskatchewan and secretary/treasurer of the Canadian Federation of Business School Deans. She has held senior positions with several public and private sector organizations and has served on numerous boards. Lynne has a Bachelor's and Master's in Arts and a Bachelor's degree in Journalism.

COMPOSITION

The board of directors is comprised of 10 elected and five appointed directors. The elected directors represent 10 electoral districts across Western Canada. *The Canadian Wheat Board Act* requires elections to be held in half of the 10 districts every two years, resulting in directors serving four-year terms. In the 2002 round of elections, farmers cast ballots in districts 1, 3, 5, 7 and 9. Incumbents Art Macklin (district 1), Larry Hill (district 3) and Bill Nicholson (district 9) were re-elected. Allen Oberg was elected in district 5. John Clair, who had represented district 5 since the inception of the board of directors in 1998, did not seek another term. The farmers of district 7, who were formerly represented by Micheal Halyk, elected Dwayne Anderson in December 2002. The 2004 elections will see elections in districts 2, 4, 6, 8 and 10.

The appointed directors include the President and Chief Executive Officer (CEO) who leads the senior management team. Adrian Measner replaced Greg Arason as President and CEO and joined the board of directors in January 2003. The other appointed directors are named for three-year terms and bring a variety of business expertise to the table. In July 2003, appointed director Lynne Pearson was named to the board to fill a vacancy.

MANDATE

The board of directors is responsible for establishing strategic direction and reviewing and approving strategic plans, budgets, financial statements, the annual business plan and the borrowing plan. The board also ensures management has appropriate systems in place to manage risk, maintain integrity of financial controls and oversee information services.

RESULTS

The board of directors achieved the following results in the 2002-03 crop year:

- CEO search – The board of directors led the search for a President and CEO prior to Greg Arason's retirement in December 2002. The board recommended Adrian Measner as Mr. Arason's successor and he was appointed by the federal government for a three-year term.
- Governance – Processes for improved governance were adopted, including changes to the structure of board and committee meetings, more emphasis on the board's strategic role and creation of a development program for directors.
- Long-Term Plan – The board of directors approved the Long-Term Plan. This is a key element of its strategic planning process over the next five years.
- Employee pension redesign – The board of directors oversaw the implementation of the new employee pension plan.
- Trade challenges – The board of directors ensured processes were in place to respond to trade challenges and World Trade Organization (WTO) negotiations, including countervailing duty and anti-dumping actions launched by the United States. A trade challenge against the CWB was also brought by the U.S. to the WTO.
- Corporate performance measures – In response to the 2002 report by the Auditor General, the board oversaw a process for establishing performance measures. Some measures are already being implemented.
- Producer Payment Options – The board of directors approved payment options and pricing enhancements for implementation in 2002-03 and 2003-04.
- New tendering agreement – The board of directors reviewed and approved a new tendering and car awards policy to address the transportation of grain sold by farmers through the CWB.
- Budget reductions – In response to severely decreased crop volumes, the board approved corporate budget reductions.
- Genetically-modified wheat – The board of directors provided direction on the CWB's strategy to prevent the premature release of genetically-modified wheat.
- Director orientation – A comprehensive orientation was provided to the two newly elected directors.

Committee structure for 2002-03

The board of directors has four standing committees. In 2002-03, there were also three ad hoc committees, including Trade, Benchmarking, and CEO Search. The CEO Search Committee and the Benchmarking Committee were disbanded in November 2002 and February 2003, respectively.

AUDIT, FINANCE AND RISK COMMITTEE

Mandate – This committee's primary responsibilities include the review of financial reporting, accounting systems, risk management and internal controls. It facilitates the conduct of an annual audit, assesses performance measures, reviews annual financial statements and accounting practices, and reviews financial and business risk policies, plans and proposals.

Members – Larry Hill (chair, beginning January 2003), John Clair (until December 2002), James Chatenay, Bonnie DuPont (beginning March 2003), Ian McCreary (beginning March 2003), Allen Oberg (beginning March 2003), Edward Zinger

2002-03 accomplishments

- Recommended approval of the financial statements and notes for the fiscal year ended July 31, 2002.
- Reviewed and recommended approval of the 2003-04 corporate budget and borrowing plan.
- Oversaw the implementation of new hedge accounting guidelines.
- Completed a review of the committee's terms of reference.
- Recommended approval of amendments to the financial risk management policies.
- Recommended continued use of Deloitte & Touche as external auditors.
- Oversaw an external audit of the Pool Return Outlook process to ensure adherence to relevant policies.
- Reviewed high-level performance measures and provided input.
- Reviewed financial risk management activities.
- Initiated a process to assess and improve the financial literacy of committee members.
- Provided input on issues concerning the results of the pool accounts.

GOVERNANCE AND MANAGEMENT RESOURCES COMMITTEE

Mandate – This committee focuses on governance to enhance board and organizational effectiveness. It assists the board in fulfilling its obligations related to human resource and compensation matters.

Members – Bonnie DuPont (chair), Dwayne Anderson (beginning March 2003), James Chatenay (beginning March 2003), Wilfred Harder (beginning March 2003), Art Macklin (until February 2003), William Nicholson (beginning March 2003), Ken Ritter (until February 2003), Edward Zinger (beginning March 2003)

2002-03 accomplishments

- Oversaw the implementation of comprehensive governance enhancements in response to the 2002 report by the Auditor General.
- Oversaw a review of the 2002 director elections.
- Reviewed the reporting relationship to the board of the Corporate Secretary and the Internal Auditor to ensure their independence.
- Recommended approval of amendments to the committee's terms of reference.
- Provided input and recommended approval of a director development and education program.
- Oversaw the implementation of the new CWB employee pension plan and approval of the terms of reference for the Senior Management Pension Committee.
- Provided direction on the succession planning process for the President and CEO and executive positions.
- Oversaw a review of the CWB's core values.

STRATEGIC ISSUES COMMITTEE

Mandate – This committee ensures that strategic and policy issues are identified and that priorities, time frames and processes to address these issues are recommended to the board. It coordinates the board's input to the CWB's strategic planning process.

Members – Bill Nicholson (chair, beginning March 2003), Ian McCreary (chair, until February 2003), Greg Arason (until December 2002), Dwayne Anderson (beginning March 2003), Rod Flaman, Wilfred Harder (beginning March 2003) Ross Keith (beginning March 2003), Art Macklin (beginning March 2003)

2002-03 accomplishments

- Oversaw the board's strategic planning process.
- Reviewed the 2003-04 business plan initiatives.
- Reviewed and recommended approval of payment options and pricing enhancements to be implemented in 2002-03 and 2003-04.
- Oversaw the CWB's recommendations to the federal government on the transportation blueprint.
- Recommended approval of a proposal to grain handlers on tendering.
- Provided strategic direction on farmer-related issues such as how to deal with genetically-modified wheat.
- Recommended approval of a number of research initiatives in the area of market development.

FARMER RELATIONS COMMITTEE

Mandate – This committee reviews and recommends to the board strategic plans for farmer relations, communications and government relations.

Members – Ian McCreary (chair, beginning March 2003) Micheal Halyk (chair, until December 2002), Wilfred Harder (until February 2003), Ross Keith, Rod Flaman (beginning March 2003), Larry Hill (beginning March 2003), Art Macklin (beginning March 2003), Allen Oberg (beginning March 2003)

2002-03 accomplishments

- Reviewed and recommended approval of communications and farmer relations strategies.
- Gave direction on corporate accountability meetings and reviewed results of the meetings.
- Recommended approval of guidelines for director representation at industry events.
- Reviewed and gave direction on the annual report.
- Commenced a review of the committee's terms of reference.

AD HOC COMMITTEES

Trade *(Larry Hill – chair, Rod Flaman, Ross Keith, Art Macklin, Ian McCreary, Bill Nicholson):* This committee recommends strategies on trade-related issues that could affect the CWB's ability to fulfill its mandate.

Benchmarking *(John Clair – chair, until December 2002, Larry Hill – chair, January-February 2003, James Chatenay, Bonnie DuPont, Ian McCreary, Bill Nicholson):* This committee assisted in developing appropriate benchmarks for performance measurement of the core grain marketing function. Ongoing duties of this committee were transferred to the Audit, Finance and Risk Committee in February 2003 when the Benchmarking Committee was disbanded.

CEO Search *(Ken Ritter – chair, Bonnie DuPont, Larry Hill, Ross Keith, Art Macklin, Ian McCreary):* This committee assisted the board in the recruitment and selection of a new President and CEO. The committee was disbanded in November 2002.

Compensation table

BOARD OF DIRECTORS

Director	District	Remuneration			Attendance		
		Retainer	Per diems	Total	Board Meetings	Committee Meetings	Industry Meetings
Macklin, Art	1	20,000.00	29,150.00	49,150.00	14	25	24
Chatenay, James	2	20,000.00	21,250.00	41,250.00	13	16	16
Hill, Larry	3	27,999.99	31,600.00	59,599.99	14	31	38
Ritter, Ken (Chair)	4	60,000.00	40,000.00	100,000.00	14	38	55
Clair, John[1]	5	10,000.00	11,250.00	21,250.00	6	7	7
Oberg, Allen[2]	5	11,666.67	23,333.33	35,000.00	8	12	16
McCreary, Ian	6	24,000.00	27,550.00	51,550.00	14	34	31
Halyk, Micheal[3]	7	10,000.00	7,000.00	17,000.00	6	4	4
Anderson, Dwayne[4]	7	11,666.67	17,000.00	28,666.67	7	9	19
Flaman, Rod	8	20,000.00	23,900.00	43,900.00	14	23	41
Nicholson, Bill	9	21,666.67	21,800.00	43,466.67	13	23	25
Harder, Wilfred	10	20,500.00	24,625.00	45,125.00	14	14	24
Arason, Greg[5] (CEO)	A	NA	NA	NA	5	NA	NA
Measner, Adrian[6] (CEO)	A	NA	NA	NA	8	NA	NA
DuPont, Bonnie	A	24,000.00	15,000.00	39,000.00	14	18	3
Keith, Ross	A	20,000.00	17,250.00	37,250.00	11	20	6
Zinger, Edward	A	20,000.00	23,000.00	43,000.00	14	17	7
Pearson, Lynne[7]	A	1,666.67	250.00	1,916.67	1	Ø	Ø
TOTAL		**323,166.67**	**333,958.33**	**657,125.00**			

A = Appointed
[1] August to December 2002
[2] January to July 2003
[3] August to December 2002
[4] January to July 2003
[5] August to December 2002
[6] January to July 2003
[7] July 2003

Directors are paid an annual retainer and per diem allowances. The board chair receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $4,000. A per diem of $500 per full regular meeting day is paid to each member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for directors and $100,000 for the board chair. This limit does not apply to the retainer for committee chairmanship, the communication allowance or any other item that the board specifically excludes. Directors do not participate in any corporate pension plan. The table above includes remuneration earned in the previous crop year, but paid during 2002-03.

Senior management

THE EXECUTIVE TEAM

Pictured l. to r.,
Earl Geddes, VP, Farmer Relations; **Laurel Repski,** VP, Human Resources, **Ward Weisensel,** Executive VP, Marketing (as of June 2003); **Adrian Measner,** President and CEO (as of January 2003); **Gord Menzie,** Executive VP, Finance; **Margaret Redmond,** Executive VP, Corporate Affairs

SENIOR MANAGEMENT

Pictured l. to r., (front row): **Deanna Allen** (seated), VP, Communications & Public Relations; **Susan Wiklund,** Acting VP, Country Operations (as of June 2003); **Graham Paul,** VP, Information Technology Services; **Deborah Harri** (seated), Corporate Secretary; (middle row): **Brian White,** VP, Commodity Analysis and Risk Management; **Victor Jarjour,** VP, Strategic Planning & Policy; **Brita Chell,** VP, Accounting; **Jim McLandress,** General Counsel; (back row): **Larry Nentwig,** VP, Finance; **Barry Horan,** Director, Corporate Audit Services; **Wendi Thiessen,** Treasurer (as of September 2002); **Bill Spafford,** VP, Sales and Market Development

Missing from photo:
Dennis Portman, Acting VP, Transportation (as of June 2003)

The Senior Management team works in partnership with the board of directors to establish and implement the CWB's vision and mission. It draws upon the leadership in the core and support areas of the business to provide direction and support to the CWB as it strives to meet its strategic objectives.

Senior management is comprised of the Executive Team, the Vice-Presidents, General Counsel, Corporate Secretary and the Director of Corporate Audit Services.

Changes to the team during the 2002-03 crop year included the replacement of the President and CEO who retired, and the subsequent replacement of the Executive Vice-President of Marketing. In support of succession planning, the position of Treasurer was established.

SENIOR MANAGEMENT COMPENSATION

	2002-2003 Actual	**2001-2002** Actual
Salaries	$ 2,372,811	$ 2,546,263
Benefits	1,256,934	1,217,273
Total	**$3,629,745**	$ 3,763,536

Senior management is compensated in accordance with policies approved by the board of directors. Corporately, there were significant efforts to reduce the human resources budget including a freeze on annual salary increases across the organization. In addition, the senior management team took a five per cent reduction in salary from October 28, 2002 to the end of the crop year for total savings of $84,309.

In keeping with the CWB Information Policy and a desire to be open and accountable to farmers, the following table sets forth compensation earned by the President and Chief Executive Officer, as well as the four other highest-paid senior officers for the year ended July 31, 2003.

SUMMARY COMPENSATION TABLE, 2002-03

	Annual Compensation	
Name and Principal Position	Salary[1]	All Other Compensation[2]
Adrian C. Measner[3] President & Chief Executive Officer	$ 250,084	–
Ward Weisensel[4] Executive Vice-President, Marketing	187,563	–
Gordon P. Menzie Executive Vice-President, Finance	179,714	–
William W. Spafford Vice-President, Sales and Marketing	172,474	–
Margaret D. Redmond Executive Vice-President, Corporate Affairs	163,516	–

Notes:

1 Annual salaries reflect a five per cent reduction from October 28, 2002 to July 31, 2003.

2 The CWB has no additional compensation plans beyond base salary. The value of perquisites for each senior officer did not exceed the lesser of $50,000 or 10 per cent of total annual salary.

3 Adrian Measner was appointed to his position on January 2, 2003.

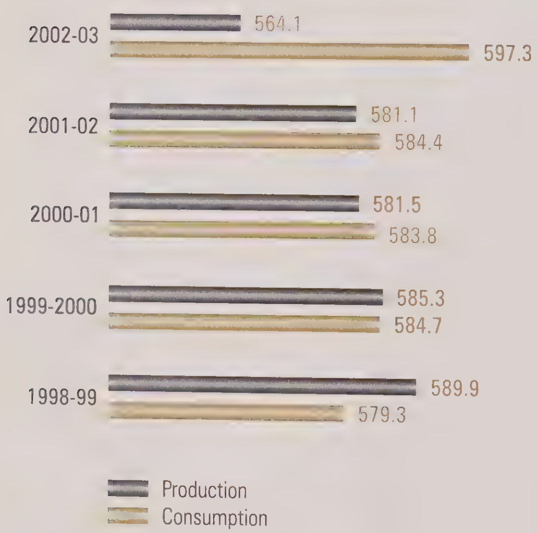
4 Ward Weisensel was appointed to his position on June 16, 2003.

Management Discussion & Analysis

Introduction

The CWB markets four crops on behalf of western Canadian farmers, namely wheat, durum, feed barley and designated barley. The revenue generated from the sale of these four grains as well as other revenue generated by CWB operations is pooled by crop throughout the year and is paid out – less expenses – to farmers based on their deliveries to the CWB. Discussion and analysis of management's performance in the 2002-03 crop year begins with an examination of crop conditions as a whole both in Western Canada and throughout the world. Each of the four pools is then considered individually. A discussion of the wheat pool deficit, the CWB's indirect income and expense, Producer Payment Options, credit sales, funding and financial risk management activities and outlook for the coming crop year round out the narrative section of the Management Discussion and Analysis. The Financial statements and accompanying notes follow.

GLOBAL WHEAT SUPPLY AND DEMAND
(million tonnes)



General crop conditions

Overall, crop volumes in 2002-03 were only 50 to 60 per cent of a normal or average crop. Total production of the six major grains (wheat, barley, oats, canola, flax and rye) was 28.4 million tonnes in 2002-03, compared to a five-year average of 42.2 million per year. Drought throughout many regions of Western Canada, and particularly in central areas of both Saskatchewan and Alberta, had a devastating impact on yields. Faced with the prospect of harvesting a very sparse crop and because of concerns related to grasshoppers and feed shortages, many farmers in the worst affected areas decided to either harvest their crops as forage or use them to pasture their livestock. Durum, however, was an exception to the rule. Because durum production is concentrated in the southern areas of the Prairies where moisture was more adequate, total production of durum was close to average.

The quality of the crop was also adversely affected by the weather. General rains finally came to the Prairies in early August, just as farmers were getting ready for harvest. In many ways, the harvest rains were just as devastating as the drought, downgrading the crop that was available and stretching out the harvest, in some cases into May of the following spring.

Crops in some of the other major exporting nations were also affected by severe droughts. Australia in particular was affected along with significant portions of the United States. These production losses were only partly offset by increased volumes in the European Union where 103.3 million tonnes of wheat were produced compared to an average of 97.9 million. As a result, wheat production in the major exporting nations fell from a five-year average of 223.0 million tonnes to just 184.7 million tonnes in 2002-03. On the other hand, wheat production in countries that were, until now, considered minor exporters rose dramatically. In the nations of the former Soviet Union, including Ukraine, Russia and Kazakhstan, wheat production jumped to 99.2 million tonnes from a five-year average of 72.2 million. This enabled these countries to play a much more significant role than expected in the international grain trade in 2002-03.

In total, global wheat production fell again in 2002-03 to 564.1 million tonnes. This is the fifth year in a row that production has fallen and represents the third year in a row where production has been less than the amount of wheat

consumed on an annual basis throughout the world (597.3 million tonnes in 2002-03). As a result, world stocks of wheat are estimated to have fallen to 164.2 million tonnes which is almost 40 million tonnes less than ending stock levels in 2000.

The CWB set an export target of 8.7 million tonnes of wheat, durum and barley at the start of the 2002-03 crop year. This was just slightly over half of the export target set the previous year and reflected the dramatically reduced volumes that were produced in 2002. This export target was almost met with 8.6 million tonnes actually being sold. The total value of CWB sales, including both export and domestic, was $3.3 billion, down from the $4.4 billion that was sold the previous year. Again, this reflects lower crop volumes as well as the poorer grade pattern that was harvested in 2002.

Change in Presentation of Statement of Pool Operations

The CWB has made changes to its operating statement presentation in order to make the statements more transparent, relevant and understandable. The changes made, which are consistent with recommendations of the recent Auditor General's report, include reducing the amount of netting of revenues and related expenses and redefining disclosed categories.

Previously, the *Revenue* line represented sales value equivalent to the proceeds that would have been available at the Vancouver, Churchill or St. Lawrence position. To bring revenue to this basis, items such as ocean freight revenue and expense, terminal handling, stevedoring, fobbing costs, and U.S. rail freight were included. Under the new presentation, *Revenue* represents grain sales at contract prices, gains or losses on foreign exchange and commodity hedging activities, as well as other direct operating income such as despatch and tendering income.

Under *Direct costs,* the freight-related categories have been combined into a single category called *Freight* as it was deemed that separation into the previous categories did not provide much additional information. Freight also includes any ocean and rail freight costs previously included in the *Revenue* line.

Given the significance and close relationship of terminal, fobbing and stevedoring costs, these were combined and included in a new category called *Terminal Handling*. As described above, these costs were previously included under *Revenue* with the exception of fobbing related to grain movement east of Thunder Bay, which was previously recorded under *Movement to eastern export position*.

Country and terminal storage have been combined because it was felt that the integral relationship between the two made separation inappropriate.

The *Net Demurrage (Despatch), Drying* and *CWB hopper car* categories have been grouped with other categories due to their relative low dollar value. Demurrage and hopper car expense is now included in *Other direct expense,* drying is in *Terminal Handling* and despatch is in *Revenue*.

Two additional categories, referred to as *Inventory adjustments and Other grain purchases*, have been created. *Inventory adjustments* captures the dollar impact of changes in grade and protein of grain as its moves through the grain handling and transportation system. *Other grain purchases* captures the net result of inventory overages acquired at initial price from grain companies and inventory shortages sold at export price to grain companies.

An *Other direct expense* category was created which captures expenses such as sales commissions, fees for sample testing and other analytical services, CWB hopper car costs, demurrage, and sales contract cancellation charges.

Finally, an *Other income* category has been added which primarily includes the recovery of cash ticket deductions, where the grain company did not incur the related charges, and the Freight Adjustment Factor recovery.

All prior year balances have been reclassified to conform to this new presentation format.

The wheat pool

	2002-03	2001-02
Receipts (tonnes)	**8 696 221**	**13 330 652**
Revenue	**$ 238.79**	$ 225.33
Direct costs	**24.02**	19.73
Net revenue from operations	**214.77**	205.60
Other income	**11.26**	9.47
Net interest earnings	**4.54**	5.23
Administrative expenses	**(4.03)**	(2.68)
Grain industry organizations	**(0.13)**	(0.08)
Earnings for distribution	**$ 226.41**	$ 217.54

EARNINGS DISTRIBUTED TO FARMERS
Wheat – 2002-03

Distributions through initial and adjustment payments in the 2002-03 wheat pool exceeded earnings for distribution by $9.86 per tonne, resulting in a deficit in the wheat pool of $85.4 million. A detailed explanation of why a deficit occurred is provided on pages 35 and 36. Several of the extraordinary circumstances that led to the deficit are also described below.

THE CROP

The 2002-03 wheat crop was the smallest in Western Canada since 1970. Over 80 per cent of the Prairies experienced drought conditions. Some regions were drier than they had been since the 1880's. Combined with severe grasshopper infestations in some areas, this led to a total wheat crop of only 10.7 million tonnes, down from 15.7 million tonnes in 2001-02. Farmers grew 19.2 million acres of wheat in 2002-03, down about 7.5 per cent from the previous year.

The grade pattern was severely affected by wet weather that arrived just as farmers were getting ready to harvest their crops. Although the moisture brought welcome relief from the drought, especially in areas that had experienced two consecutive years of dry conditions, it could not have come at a worse time. The wet conditions not only resulted in poorer grades but also in long delays in the harvest with some farmers combining their crops well into winter and even early spring. Only 37 per cent of the wheat crop graded No. 1 or No. 2, compared to 90 per cent in 2001-02. Degrading factors included sprouting, bleaching, mildew and fusarium. By mid-October, only 75 per cent of the crop had been harvested.

THE MARKETING ENVIRONMENT

Prices for high quality wheat rose sharply in the late summer and early fall as production shortfalls in Canada, the U.S. and Australia became apparent. At the same time, farmers in nations which had traditionally been considered minor exporters were harvesting a very large crop. This led to a record spread between North American values for high quality wheat and lower quality grain from other origins. As a result, many buyers in the international market decided to switch to blends that included more lower quality wheat. The decline in prices was also compounded by the European Union's decision to resume the use of export subsidies in an effort to compete with low-cost wheat from origins like Russia and the Ukraine. Early in 2003, the value of the American dollar compared to many other currencies, including the Canadian dollar, began to fall rapidly, further cutting into the value of our exports. The combination of these factors caused an extraordinary drop in the nearby futures markets for wheat and other commodities. Minneapolis nearby wheat futures in Canadian dollar terms fell by over $135 per tonne from their peak in early October 2002 to June 2003.

THE STRATEGY

The CWB sells grain throughout the crop year. It does so not only because of the requirement to match sales with customers' buying patterns but also because of the need to appropriately manage the pricing risk that farmers face on their grain. It would

be imprudent to price farmers' grain all at once when there is the possibility that grain prices will continue to move upward. Prices in the fall of 1995, for example, were at similar levels to those that were seen in October 2002. They then proceeded to increase, reaching spot values of close to $7.00 US per bushel in the late spring of 1996.

Because grain markets are as unpredictable as the weather, the CWB has put in place a prudent system of risk management. A key component of this system is a staged approach to marketing the crop. This system ensures that pool returns, regardless of what happens to the markets, reflect to some extent the benefits of rising prices that may occur later.

With the Producer Payment Options that the CWB introduced in 2000-01 – specifically the Basis Payment Contract – farmers can now spot price on their own if the pooled approach to risk management does not match their business needs.

Furthermore, the CWB, much as farmers do themselves, must know quite accurately what it has to market before making extensive commitments to buyers. In a year of reduced crops and delayed harvests like in 2002-03, this meant taking a cautious approach to selling and pricing the crop in the fall period.

The poor grade pattern and low yields meant the CWB had to undertake considerable effort to ensure supplies for its most reliable and best paying customers.

THE DELIVERIES

Delivery opportunities for wheat varied depending on grade and class. All of the wheat committed to Series A and B contracts was accepted. By October 2002, 50 per cent of the Canada Western Red Spring (CWRS) that was committed to Series A contracts had been called into the system. The portion of committed tonnage called into the system by December 31, 2002 for the other classes of wheat ranged from 25 per cent calls in the case of Canada Prairie Spring Red and White as well as Canada Western Extra Strong to 50 per cent for Canada Western Soft White Spring and 75 per cent for Canada Western Red Winter wheat.

Series C acceptance was limited to 100 per cent of No. 1 and No. 2 CWRS because of concerns about the value of the other grades and classes of wheat at the time (early June) and how these market values would impact wheat pool returns.

In all, 98 per cent of the wheat offered by farmers on Series A, B and C delivery contracts was accepted.

THE RESULTS

Generally, the CWB's marketing strategy in 2002-03 entailed protection of supply for higher return customers. Many lower return customers experienced either severe cutbacks in supply or were unable to buy Canadian wheat. This enabled us to capture higher premiums from quality conscious markets.

The major customer for wheat sold through the CWB was again our own domestic market. In 2002-03, approximately 2.43 million tonnes were processed domestically compared to 2.33 million tonnes the previous two crop years.

Japan bought close to a million tonnes of Canadian wheat. Mexico moved into third place among customers for Prairie wheat with purchases of 633 000 tonnes. The United Kingdom was fourth and the Philippines was fifth: both purchased approximately 300 000 tonnes. Our sales into the U.S. market, which had purchased over one million tonnes in the previous year, dropped sharply in response to a number of factors, including a decreased supply of the high quality wheat which is typically sold to American customers.

LARGEST VOLUME WHEAT CUSTOMERS
(000 tonnes) 2002-03

The wheat pool realized total revenue of just over $2 billion on a pool substantially reduced in quality and quantity by adverse growing conditions. The effect on prices of tight world supplies offset the lower grade wheat crop to provide a per tonne revenue that was $13.46 or six per cent greater than the prior year. On a grade basis, the returns on No.1 and No. 2 CWRS were up 13 per cent compared to 2001-02 to $230.63 and $223.03 per tonne, respectively.

DIRECT COSTS

Direct costs increased $4.29 per tonne to $24.02 primarily due to higher per-tonne freight, inventory storage and financing, and other direct expenses.

Although seaway freight costs were down in total, as comparatively fewer stocks moved out of the east, an increase in the proportion of eastern sales to the total pool size resulted in an increased per tonne cost.

A moderate decline in overall inventory storage costs, in a year when pool receipts were down substantially, reflects the fact that, regardless of pool size, a certain level of grain must be maintained within the system to efficiently meet sales commitments. The result is that, even though the total storage costs are relatively constant, the per tonne rate appears inflated due to the decline in overall pool receipts.

Financing costs showed a modest increase, mainly due to a year-over-year increase in the initial payment of wheat upon which financing is based.

Other direct expenses increased due to sales contract cancellation costs incurred during 2002-03. As crop conditions deteriorated throughout the summer of 2002, there were increasing concerns that the CWB would not have sufficient supplies of higher grade stocks to meet the requirements of its highest value, longtime customers. Inability to service these customers would have had significant, harmful and irreparable long-term impacts on these valuable relationships. To ensure the needs of these customers were met, a decision was made to exit certain sales contracts and incur these contract cancellation costs.

OTHER INCOME

Other income has increased $1.79 per tonne to $11.26 due to a per tonne increase in the freight adjustment factor (FAF) recovery. The FAF recovery applies primarily to producer deliveries in the eastern catchment areas. For the most part, these areas were not affected by the drought conditions seen in the west. As a result, even though the total amount of FAF recovery collected saw a marginal decrease, the per tonne rate increased due to the overall decline in the wheat pool size.

DISTRIBUTION OF EARNINGS

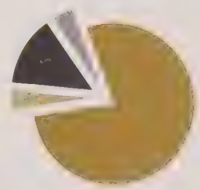
Compared to last year, the average sales proceeds increased four per cent or $8.87 per tonne to $226.41 in 2002-03. Distributions through initial and adjustment payments totaled $236.27, resulting in a pool deficit. The federal government covers the shortfall in the wheat pool by virtue of its guarantee of initial and adjustment payments. A review of the events that led to a deficit in the 2002-03 wheat pool is provided on pages 35 and 36.

Producer Payment Options, like the Fixed Price (FPC) and Basis Payment (BPC) contracts, are designed to operate independently of the pool and therefore do not impact the pool's net results. Just over $8.6 million of sales returns were paid from the wheat pool to the Producer Payment Option program representing the return on the specific grades and classes of wheat delivered under the FPC and BPC. The payment option program in turn paid farmers at the respective contracted price under the program.

The durum pool

	2002-03	2001-02
Receipts (tonnes)	**3 803 596**	**3 246 369**
Revenue	**$ 278.89**	$ 287.50
Direct costs	**26.16**	32.64
Net revenue from operations	**252.73**	254.86
Other income	**1.89**	5.58
Net interest earnings	**2.24**	3.68
Administrative expenses	**(4.03)**	(2.68)
Grain industry organizations	**(0.13)**	(0.08)
Earnings for distribution	**$ 252.70**	$ 261.36

EARNINGS DISTRIBUTED TO FARMERS
Durum – 2002-03



- 78% Initial payment
- 4% Adjustment payments
- 14% Interim payments
- 4% Final payments

THE CROP

While the durum-growing areas of Western Canada were also touched by drought, they were less severely affected than other parts of the Prairies. Regions south of the Trans-Canada Highway in Alberta and Saskatchewan received close to normal levels of precipitation throughout the growing season. Slightly over six million acres were seeded to durum in 2002-03, up 15 per cent from the previous year. Total production was 3.9 million tonnes. Although this was still well below the five-year average of 4.7 million tonnes, it did represent a significant increase over production in 2001-02 which came in at three million tonnes. As with spring wheat, the grade pattern for durum was unfortunately affected by the very wet conditions in the fall of 2002. Where 56 per cent of the durum crop normally grades No. 1 or No. 2, that percentage fell to 26 per cent in 2002-03.

THE MARKETING ENVIRONMENT

Global production of durum in 2002-03 was 33.2 million tonnes, up considerably from the 31 million tonnes that were produced the previous year. Production in both Canada and the European Union (EU) was higher. The increase in EU production was two million tonnes. Increased production was partially offset by increased demand, especially in the countries of North Africa. Buyers in these nations purchased 3.5 million tonnes, up 400 000 tonnes from 2001-02. On the other hand, demand for durum in the U.S. was down as buyers there had concerns over the grade pattern of the durum crop. International trade in durum shrank from a total of 7.3 million tonnes on average to 6.6 million tonnes in 2002-03.

THE STRATEGY

We entered the 2002-03 crop year with fairly tight carry-in stocks of just over 1.5 million tonnes. Lower stocks and below-average production resulted in considerably less durum to sell than in previous years. As with the wheat pool, we needed to ensure that the needs of our highest quality and highest value customers were met, even though supplies of durum in general were down and supplies of No. 1 and No. 2 durum were particularly tight. The CWB was successful in selling significant quantities of No. 3 and 4 durum on farmers' behalf.

THE DELIVERIES

The CWB announced in the fall of 2002 that it would be accepting 100 per cent of the durum that farmers would sign up to Series A, B and C delivery contracts. Three-quarters of the Series A No. 1 Canada Western Amber Durum (CWAD) was called before December 31, 2002. Other grades were not called quite as quickly: 50 per cent of No. 2, No. 3 and No. 4 CWAD committed to Series A contracts was called by the end of 2002 while No. 5 CWAD was not called until 2003. Carry-out stocks increased slightly to 1.7 million tonnes.

THE RESULTS

Algeria continues to be the largest volume customer for western Canadian durum with purchases of 854 000 tonnes. Tunisia and Italy followed with purchases of 382 000 and 337 000 tonnes respectively. Our own domestic market moved up to fourth position among buyers. A total of 320 000 tonnes of durum were bought by Canadian processors. Morocco, which had been the third largest volume buyer of western Canadian durum in 2001-02 rounded out the top-five customers with purchases of 316 000 tonnes.

In total, the durum pool returned just over $1 billion on receipts of 3.8 million tonnes. Although farmer deliveries were higher than in the previous crop year by close to 600 000 tonnes, a lower grade crop caused by excessive precipitation at harvest resulted in a decline in the average per tonne revenue of three per cent or $8.61 to $278.89. However, on a grade basis, the returns on No. 1 and No. 2 CWAD were up between nine and 14 per cent compared to 2001-02.

LARGEST VOLUME DURUM CUSTOMERS

(000 tonnes) 2002-03

DIRECT COSTS

Direct costs decreased by $6.48 per tonne to $26.16 due primarily to lower freight costs and the income effect of inventory adjustment demotions, offset by greater terminal handling costs.

For sales to the U.S., the CWB typically incurs directly the rail freight cost and recovers this amount through higher sales revenue. The dramatic decline in U.S. sales during 2002-03, due primarily to the lower grade crop and the U.S. trade action, resulted in a corresponding decline in U.S. rail freight expense. This was offset somewhat by greater St. Lawrence Seaway freight as these sales were partially redirected to sales out of the east coast. Movement of a greater proportion of total sales through the eastern terminals also led to a corresponding increase in related fobbing costs recorded under terminal handling.

There was substantial grade demotion of carry-in stocks for the 2002-03 durum pool. The carryover of inventory from 2001-02 was primarily No. 1 and No. 2 CWAD much of which was blended with the 2002-03 crop (which had a poorer grade pattern) to maintain a minimum grade of No. 3 CWAD. The overall sales value of the 2002-03 durum pool is lower from having lower quality grain to sell than that which was reported by handling agents to the CWB and on which the CWB has made adjustment, interim and final payments. This loss is partially mitigated because the grain companies are only reimbursed the value of the lower quality grain whereas they have paid the farmer the higher initial payment of the higher quality grain initially reported as delivered.

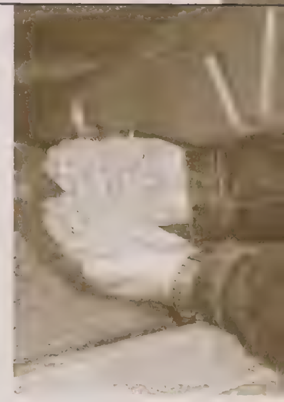
OTHER INCOME

The drop in sales to the U.S. also indirectly resulted in the decline in other income. One of the main components of Other income is the recovery from CWB agents of the freight deducted from cash tickets where the grain was shipped to other than terminal locations. Typically, a significant volume of durum is sold to the U.S. and therefore is not railed to terminal position, resulting in substantial recoveries. With the decline of sales to the U.S., a greater proportion of durum was sold through terminal positions where these recoveries are not applicable.

DISTRIBUTION OF EARNINGS

The average sales proceeds available for distribution decreased three per cent or $8.66 per tonne to $252.70. Of the amounts returned to pool participants, 82 per cent was distributed by November 27, 2002 in the form of initial and adjustment payments. A further 14 per cent, or $34.80 per tonne, was distributed as an interim payment on October 3, 2003.

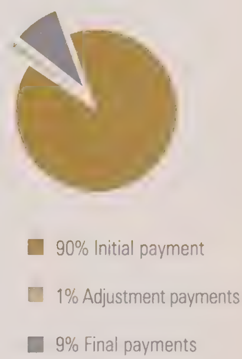
For producer receipts delivered under the Fixed Price Contract program, $459,469 was paid from the pool to the program representing the final pool return on the specific grades delivered to the durum pool under the FPC program. The payment option program in turn paid farmers at the respective contracted price under the program.



The feed barley pool

	2002-03	2001-02
Receipts (tonnes)	**39 698**	**54 373**
Revenue	**$ 168.28**	$ 162.86
Direct costs	**16.90**	2.53
Net revenue from operations	**151.38**	160.33
Other income	**6.35**	7.34
Net interest earnings	**137.70**	145.54
Administrative expenses	**(4.03)**	(2.69)
Grain industry organizations	**(0.13)**	(0.08)
Earnings for distribution	**291.27**	310.44
Transferred to contingency fund	**127.89**	130.85
Earnings distributed to pool participants	**$ 163.38**	$ 179.59

EARNINGS DISTRIBUTED TO FARMERS
Feed barley – 2002-03



THE CROP

The five-year average for barley production in Western Canada is 11.8 million tonnes. In 2002-03, the drought cut barley production almost in half, down to 6.4 million tonnes. This was the smallest barley crop since 1968. Farmers seeded 11.8 million acres to barley in 2002, up 10 per cent from the previous year. Along with reduced production, the quality of the barley crop was also severely affected by the weather. Prolonged wetness in the fall reduced bushel weights and resulted in sprouting and bleaching. Some feed barley was not harvested until the spring of 2003.

THE MARKETING ENVIRONMENT

The domestic livestock industry uses close to nine million tonnes of feed barley annually. With total barley production at levels well below domestic feed consumption, it was clear very early in the crop year that supply and demand factors would push feed barley prices higher. Much higher imports of American corn, however, limited the increase in domestic feed barley prices. In 2002-03, 2.5 million tonnes of U.S. corn flowed into Western Canada, compared to a five-year average of 600 000 tonnes. The announcement on May 20, 2003 that bovine spongiform encephalopathy (BSE) had been found in a cow in Western Canada caused feed barley prices to decline significantly as demand dwindled in the wake of the closure of cattle export markets. The increase in the value of the Canadian dollar compared to the U.S. currency also caused prices in the domestic feed industry to decline. Meanwhile, international trade in feed grains was feeling the effects of strong export activity on the part of the minor exporters (Russia, Ukraine and the nations of Eastern Europe) as well as China which exported 14.5 million tonnes. Therefore, in spite of developments that pressured prices in the domestic market as the crop year progressed, domestic feed market values remained more attractive than international prices throughout 2002-03.

THE STRATEGY

Strong domestic prices for feed barley led many farmers to sell their feed barley into the domestic market rather than through the CWB to off-shore customers. For the barley delivered to the CWB, the strategy was to market these limited supplies to achieve the highest possible return.

THE DELIVERIES

All feed barley offered by farmers and contracted for sale through the CWB was accepted for delivery. A guaranteed delivery contract for feed barley was offered at the start of 2002-03. Total farmer deliveries were 39 698 tonnes.

THE RESULTS

Very little barley was sold during the year. Because the majority of deliveries occurred very late in the crop year, export sales only materialized at year-end. The majority of the barley that was delivered into the feed barley pool was sold to Saudi Arabia

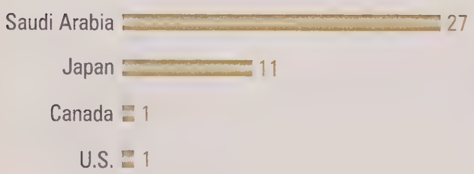
(close to 27 000 tonnes). A further 11 300 tonnes were sold to Japan. The remaining limited volumes were sold in the domestic and U.S. markets. The 2002-03 feed barley pool was far below the five-year average of 344 000 tonnes.

Given the size of the feed barley pool, only a portion of the interest earnings were paid out to farmers though the pool account. This was done to avoid distorting the feed barley return. The remaining interest earnings were allocated to a contingency fund, as they were in the previous crop year.

Barley sales during the year totaled $6.7 million or $168.28 per tonne on 39 698 tonnes, compared to $162.86 per tonne in 2001-02.

LARGEST VOLUME FEED BARLEY CUSTOMERS

(000 tonnes) 2002-03



DIRECT COSTS

The small pool size experienced during the past two years causes greater volatility in the per tonne rate calculated. As such, direct costs show a $14.37 increase to $16.90, primarily due to reduced inventory shortage settlements, increased terminal handling, offset by a decrease in inventory storage.

During the prior year, as a result of terminal inventory audits, there were some substantial settlements of inventory shortages. These shortages must be settled by grain companies at export price and represent income to the pool.

The increase in terminal handling was entirely due to the fact that a greater proportion of the total barley pool was sold on a FOB basis to off-shore customers. As such, the pool incurred greater fobbing and stevedoring charges that were offset by higher revenue.

Although total storage costs in the country were relatively stable, terminal storage cost were much lower as only a small volume of carry-over stocks were maintained in terminal position during the year. With deliveries and the majority of export opportunities only materializing late in the crop year, sales during the year were primarily domestic and, therefore, little barley was moved into terminal position.

DISTRIBUTION OF EARNINGS

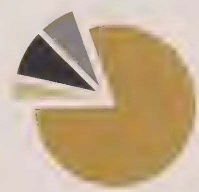
Including the benefit of greater than $137 per tonne in net interest earnings, primarily related to credit sales from past years, the average proceeds from the feed barley pool available for distribution amounted to $291.27 per tonne. Of this amount, the average return disbursed to farmers through the feed barley pool account was $163.38. CWB initial and adjustment payments paid out 91 per cent of this total to farmers by November 27, 2002. Just over $5 million of interest earnings was transferred into the contingency fund.

The designated barley pool

	2002-03	2001-02
Receipts (tonnes)	891 433	2 205 058
Revenue	**$ 219.70**	$ 196.50
Direct costs	**10.82**	6.98
Net revenue from operations	**208.88**	189.52
Other income	**30.66**	19.78
Net interest earnings	**1.52**	0.92
Administrative expenses	**(4.03)**	(2.67)
Grain industry organizations	**(0.25)**	(0.13)
Earnings for distribution	**$ 236.78**	$ 207.42

EARNINGS DISTRIBUTED TO FARMERS

Designated barley – 2002-03



THE CROP

Barley acreage in 2002 was up 10 per cent from the previous year's levels. In 2002-03, 11.8 million acres were planted to barley compared to 10.8 million in 2001-02. Of these acres, 73.4 per cent were planted to malting-eligible varieties.

Because of drought in many of the significant barley growing areas of Western Canada, total production was slashed by over three million tonnes from the previous year's total and was just over half of the five-year average of 11.8 million tonnes. Quality of the barley crop was also a serious concern as early frosts and wet conditions at harvest combined with the summer's drought to produce a number of degrading factors, including mildew, sprouting, bleaching and shrunken and immature kernels. This resulted in very limited supplies of malting-quality barley.

THE MARKETING ENVIRONMENT

Because of the high prices in the domestic feed industry early in the crop year, it was initially quite difficult to attract supplies of designated barley. International malting barley prices were slow to reflect the lower volumes produced in both Canada and Australia (which produced only 3.3 million tonnes of barley compared to the 8.4 million tonnes grown the previous year) as very large Australian carry-in stocks continued to weigh on the market. Global demand was also reduced as consumers in China appeared to curtail their purchases of beer as a result of the severe acute respiratory syndrome (SARS) epidemic.

THE STRATEGY

The CWB worked closely with maltsters to meet the demands of the domestic malting industry. An early payment program which paid farmers 95 per cent of the September Pool Return Outlook was implemented in early fall to attract available supplies of malting-quality barley. This program paid farmers an in-store Vancouver or St. Lawrence price of $230.85 per tonne and $211.85 per tonne for Special Select two-row and six-row malting barley respectively. Exports as a whole declined because of decreased supplies and concerns with the suitability of the crop for malting purposes.

THE DELIVERIES

Two-row and six-row designated barley deliveries were spread fairly evenly throughout the year. Reduced production because of the drought, degrading of the crop caused by wet harvest conditions and the demands of the domestic livestock industry all combined to reduce the size of the designated barley pool. It was 891 433 compared to 2.2 million tonnes in 2001-02.

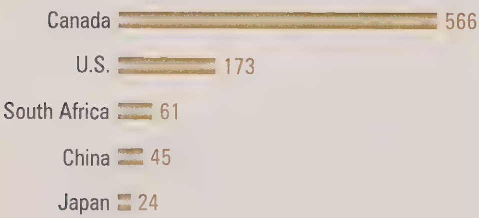
THE RESULTS

The CWB's most significant malting barley customer in 2002-03 was the domestic malting industry. It purchased 566 000 tonnes, which was roughly half of its purchases of western Canadian malting barley in the previous year (1.15 million tonnes).
The U.S. retained its standing as the largest foreign buyer of Prairie designated barley. Its purchases also dropped significantly

from last year's level of 452 000 tonnes and totaled only 173 000 tonnes in 2002-03. The U.S. was followed by South Africa, China and Japan. Chinese buyers went from purchasing 400 000 tonnes in 2001-02 to 45 000 tonnes in 2002-03.

Revenue generated from the designated barley pool totaled $196 million on just over 891 000 tonnes. This equates to a per tonne revenue of $219.70 which is up over $23 or 12 per cent compared to last year.

LARGEST VOLUME DESIGNATED BARLEY CUSTOMERS
(000 tonnes) 2002-03



DIRECT COSTS

Direct costs have increased $3.84 to $10.82 on a per tonne basis due to increases in storage, other grain purchases and other direct expenses, offset by a decline in freight.

Storage costs were down in total due to significantly reduced crop volumes. However, the per tonne rate has increased because, on average, stocks were in inventory for longer periods, reflecting the fact that stocks were brought in early.

Other grain purchases relate entirely to substantial inventory overages, reported by grain companies during 2002-03. These overages were subsequently acquired by the CWB at the initial payment value.

Other direct expense increased due to producer receipts received subsequent to the prior crop year's end date, under 2001-02 cash tickets, that the CWB accepted due to contractual commitments. These late receipts are recorded as an expense based on the 2001-02 final return for the grades received. Offsetting the increase in other direct expense is a reduction in selection fees due to the reduced crop.

Freight has shown a significant decline from 2001-02 due to the fact that the prior year has several Cost and Freight sales where the CWB incurred ocean freight charges. These charges were recovered through greater sales revenue.

OTHER INCOME

The increase in the per tonne value of other income is due primarily to the recovery of the rail freight cash ticket deduction on grain sales that are not shipped through terminal position. Although total other income has declined, the per tonne value has increased because the proportion of sales that did not move through terminal position compared to total sales was greater than in 2001-02.

DISTRIBUTION OF EARNINGS

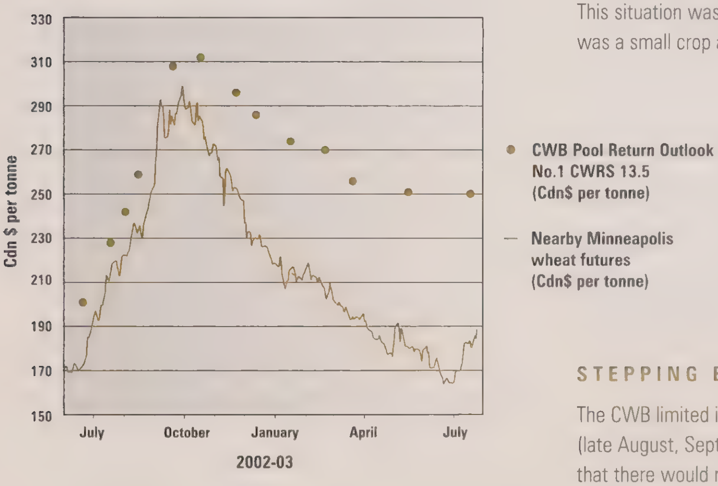
Average earnings for distribution in the designated barley pool increased 14 per cent or $29.36 per tonne to $236.78. Of the amount returned to pool participants, 84 per cent was distributed to producers by November 27, 2002 in the form of initial and adjustment payments. A further nine per cent was distributed as an interim payment on October 3, 2003. These percentages do not take into account the maltster early payment program that was offered in 2002-03.

The deficit in the wheat pool

The $85.4 million deficit in the wheat pool account came about as a result of the concurrence of a number of extraordinary factors in 2002-03. These factors are described in detail below.

THE 2002 CROP

The CWB came into 2002-03 with tight wheat stocks (about five million tonnes compared to a 10-year average of 5.7 million). It was clear, with these stocks and production cut almost in half by drought in the summer of 2002, that there would be much less wheat to sell. It was also very dry in the U.S. and in Australia and there was flooding in northern Europe. Concerns in all of these major wheat exporting countries caused the price of wheat to climb over the summer months, as the following chart indicates.



THE EARLY SALES PACE

During the summer of 2002, the CWB was selling grain, as it always does, in order to meet the needs of its customers and because it makes sense to spread out sales to get the best price, year-in, year-out. Sales were being made at a cautious pace, however, because crop conditions were deteriorating as the summer progressed (therefore, the market was moving up) and harvest of the 2002 crop had not begun. It should also be noted that a significant portion of sales during the early fall period were actually old year stocks as new crop is typically not available for sale until September or October. These sales are accounted for in the wheat pool returns received by farmers for the 2001-02 crop.

THE 2002 HARVEST

In the fall of 2002, the Prairies received much needed rain but it caused huge delays in harvest and downgraded the crop severely. Many farmers were not finished combining until December, and in some cases, harvest even dragged into May of the following spring. Only 37 per cent of the 2002 wheat crop graded No. 1 or No. 2 CWRS compared to an average of 65 per cent. Most importantly, the total volume of No. 1 and No. 2 CWRS was only 3.2 million tonnes, the lowest level ever on record.

CONTRACT SIGN-UP

As a result of these factors, the CWB did not have a clear picture of the quantity and quality of the wheat crop that it would have for sale when wheat prices were peaking in late September. This situation was further exacerbated by the fact that there was a small crop and therefore, the margin for error was slight. Farmers were slow to commit to delivery contracts with the CWB because they didn't know what they were going to get off the field, if anything. The October deadline for Series A contract sign-up was pushed back to November 15 to give farmers a chance to get their crop harvested. That proved to be insufficient; farmers continued to sign up well into December.

STEPPING BACK FROM THE MARKET

The CWB limited its sales of wheat during the early fall period (late August, September 2002). There was concern at the time that there would not be enough good quality grain to meet the needs of Western Canada's core customers. Sales continued to be made into these markets but the CWB stopped serving other markets because it could not afford to over-commit and then short its best customers. Concern over its ability to supply its core customers with higher quality wheat led the CWB to approach its customers with requests to downgrade or defer purchases of No. 1 or No. 2 CWRS. The CWB also bought back some sales contracts so that this grain could be allocated to higher return markets and to solidify long-term business relationships with its core customers.

THE "MINOR" EXPORTERS

By early October, prices in the commodity markets began to drop. The large volumes of wheat harvested and marketed by countries of the former Soviet Union (Ukraine, Russia, Kazakhstan) to which the industry often refers as minor exporters were the prime reason. There was awareness throughout the grain industry that a large crop had been harvested in these countries. But because it was lower quality wheat and because these countries had not had a major presence in the market for many years, markets were caught off guard by just how much grain they eventually sold, especially to customers who usually buy good quality wheat. By selling at values of about $100 US less than market values in North America, they were able to gain a much larger share of the international wheat trade than anyone – including the CWB – had expected (about 39 per cent over the course of 2002-03). In reaction to this aggressive selling by the "minor" exporters, the EU also resumed its export subsidy program. As a result, 60 per cent of the world trade in wheat in 2002-03 was sold at prices well under U.S. commercial values and close to $110 US per tonne.

HOW BUYERS REACTED

Prices continued to fall through November and December. By this time, harvest in Western Canada was finally winding down and the CWB was at last getting a clearer picture of what there was for sale. However, achieving a fair price for the wheat crop became very difficult. Buyers were continuing to use blends with a higher portion of lower quality wheat from the "minor" exporters. They were buying hand-to-mouth because they could also see prices dropping or they had already forward-bought enough grain to satisfy their needs.

THE WHEAT MARKET OVERALL

After peaking at a value of $189.32 US per tonne in early October, nearby futures on the Minneapolis exchange fell steadily, reaching a low of $121.35 US on June 27, 2003. In addition to ample supplies of lower quality wheat and limited buyer demand, prices were also pressured downward in the spring of 2003 by much improved crop prospects in many of the major exporting nations including Canada, the U.S. and Australia.

THE CANADIAN DOLLAR

Another challenge was also emerging. In January of 2003, the value of the Canadian dollar began to strengthen against the U.S. dollar. Over the following six months, it strengthened from $1 US = $1.5672 CDN on January 2, 2003 to $1 US = $1.4048 CDN on July 31, 2003, but it was as high as $1 US = $1.3350 CDN on June 13. Because CWB sales are priced against the U.S. markets, this had a direct impact on wheat prices.

THE CWB PRO

The combination of the drop in the value of wheat on the commodity markets and the increase in the value of the Canadian dollar proved devastating. Nearby futures on the Minneapolis exchange in Canadian dollars declined by over $135 per tonne from the fall of 2002 to the spring of 2003 (see graph on previous page). The CWB's PRO followed wheat markets up and down. However, because it is a pooled price for the entire year as opposed to a spot price, changes in the PRO were neither as extreme nor as sudden. The PRO for No.1 Canada Western Red Spring (CWRS) 13.5 per cent protein peaked at $312 per tonne in October 2002 and fell to $250.20 by July 2003. This is a decline of $61.80 per tonne. It could not fall any further because the federal government guarantees the initial and adjustment payments made to the farmers of Western Canada through the CWB.

THE DEFICIT IN THE WHEAT POOL

Based on the PROs that were predicted in the fall of 2002, the CWB recommended an initial payment of $250.20 on No.1 CWRS 13.5 per cent protein. The federal government analysed the CWB's recommendation and authorized it in November 2002. In hindsight, the risk factor that was taken on unsold grain when this recommendation was made and approved was not enough to cover both the fall in wheat markets and the increase in the value of the Canadian dollar.

As a result, there was a deficit in the wheat pool of $85.4 million at the end of the 2002-03 crop year. There was no final payment on the wheat that farmers delivered for sale through the CWB. Funding of a deficit in the CWB's pool accounts is guaranteed by the Government of Canada under *The Canadian Wheat Board Act*.

Indirect income and expense

ADMINISTRATIVE EXPENSES

Consistent with objectives described previously relating to the change in the presentation format of the Operating Statement, the CWB has also revised its presentation of administrative expenses to make them clearer and more understandable.

Administrative expenses have increased $5.4 million or nine per cent from the prior crop year to $66.7 million. This increase is primarily due to the $10 million in legal costs expended to fight the U.S. trade challenges. Without this expense, the CWB would have realized year-over-year savings on administrative expenses of $4.6 million as it continued to exercise fiscal restraint during a very difficult year.

In recognition of the need to limit expenditures in 2002-03, management took the initiative of eliminating all salary increases for staff and there was a five per cent roll back in compensation for all levels of senior management.

Significant savings were also achieved, under Human Resources, by the continued strategy of reducing reliance on contractors to meet technology objectives. Additionally, notable savings were realized by minimizing all non-critical office, travel, advertising and training expenses.

GRAIN INDUSTRY ORGANIZATIONS

The CWB has continued to provide support for organizations that benefit, both directly and indirectly, the western Canadian grain farmer. During 2002-03, the CWB contributed a combined $1.8 million to the operations of Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC).

NET INTEREST EARNINGS

Net interest earnings of $54.8 million are due primarily to the net interest earned on amounts owed to the CWB on credit grain sales made under the Credit Grain Sales program (CGSP) and the Agri-food Credit Facility (ACF). When the CWB sells grain on credit, it must borrow an equal amount to facilitate payments to farmers and conduct ongoing operations. The CWB is able to borrow at interest rates lower than those extended to the credit customer. As a result, the CWB earns an interest 'spread'.

During periods when interest rates are trending downwards or upwards, the spread will widen or narrow because of the differences in term between the receivable and the related borrowing. The spread margin earned during the current year is consistent with 2001-02 because interest rates trended downward similarly during both periods.

Although the spread margin remained consistent, overall interest revenue and expenses declined steeply due to lower interest rates, lower U.S. dollar exchange rates, and reduced credit receivable balances, as countries such as Poland, Iran, Russia and Brazil made sizeable repayments.

(000's)	**2002-03**	2001-02
Interest on credit sales		
Revenue on credit sales receivable	$ 173,626	$ 273,848
Expense on borrowings used used to finance credit sales receivables	116,623	187,907
Net interest on credit sales	57,003	85,941
Interest (expense) revenue on pool account balances	**(4,455)**	**5,105**
Other interest		
Revenue	5,126	4,630
Expense	2,858	4,037
Net other interest revenue	2,268	593
Total Net interest earnings	**$ 54,816**	$ 91,639

The interest on pool account balances is in a net expense position this year almost solely due to the wheat pool deficit incurred for 2002-03. The result was an interest charge to the wheat pool of $5.4 million compared to interest revenue of $3.9 million in the prior year.

The most significant component of Other interest revenue is interest revenue from customers due to delays in the receipt of sales proceeds on non-credit sales. Normal fluctuations will occur in the account as the number of days outstanding on these arrangements will typically range between one and 10 days.

Expenses primarily from financing costs such as treasury fees and bank charges make up the main portion of Other interest expense. The expenses are down due to a decrease in dealer commissions paid on Wheat Board Notes as these commissions are now built into the interest rate.

Producer Payment Options

Providing farmers choice and flexibility is a priority of the farmer-controlled board of directors. Beginning in 2000-01, the board of directors introduced a number of innovative Producer Payment Options (PPOs) which, in the 2002-03 crop year, were enhanced and extended to a wider range of crops. While the PPOs offer farmers opportunities to exercise control over the marketing of their wheat, durum and barley, they are structured so that the viability and the integrity of the CWB pool accounts are maintained. Price pooling, which provides farmers a return that reflects sales made throughout the crop year, is an effective price risk management tool that farmers continue to value and support.

PROGRAMS

Three types of PPOs are available to Prairie farmers through the CWB.

1. The Fixed Price Contract (FPC): Introduced in the 2000-01 crop year, the FPC enables farmers to lock in a price for all or a portion of their wheat or feed barley before the beginning of the crop year (August 1). It is based on the CWB Pool Return Outlook (PRO) minus a discount for risk, time-value of money and administration costs of the program. Farmers get full payment for their grain when it is delivered. They receive no further payments from the pool accounts for these deliveries. Program costs are entirely covered by the farmers who use it. In 2000-01, fixed prices on CWRS and feed barley were offered. For 2001-02 and 2002-03, the FPC was extended to all classes of wheat and to feed barley. As well, an FPC on durum wheat was developed and made available to farmers on a trial basis for 2002-03. During the 2002-03 crop year, 247 farmers signed an FPC. They delivered 29 304 tonnes of wheat and 1 836 tonnes of durum under the FPC. The maximum value for No.1 CWRS 13.5 per cent protein that could have been locked in under an FPC for the 2002-03 crop year was $235.38 per tonne.

2. The Basis Payment Contract (BPC): Launched at the same time as the FPC, the BPC enables farmers to lock in the difference or **basis** between the fixed price and the relevant U.S. futures price. When pricing their grain, farmers get the futures price that they have selected plus the basis that they locked in. Farmers get full payment for their grain when it has been both delivered and priced. They receive no further payments from the pool accounts for these deliveries. The BPC was extended to all classes of wheat (excluding durum) for the 2001-02 crop year. In 2002-03, 55 farmers signed a BPC. A total of 8 796 tonnes of wheat were delivered under the BPC. The maximum value for No.1 CWRS 13.5 per cent protein that could have been locked in under a BPC for the 2002-03 crop year was just over $325 per tonne. This value could have been achieved by locking in the basis portion in May 2002 and pricing the futures portion of the BPC in early October.

3. The Early Payment Option (EPO): In 2001-02, the CWB introduced the EPO as a pilot program for producers of CWRW and CWSWS wheat. It had previously only been available on feed barley committed to Guaranteed Delivery Contracts. The EPO enables farmers to receive 90 per cent of the PRO – less a discount for risk, time-value of money and administration costs – at time of delivery while remaining in the pool account. Farmers receive the initial payment less the usual freight and elevation charges at that time. The CWB then issues an additional payment to bring the total to 90 per cent of the locked-in PRO less the discount. Because these deliveries remain in the pool account, farmers are eligible for any future adjustment, interim and final payments that increase the price of these deliveries beyond the value that they have locked in. This program, therefore, not only serves to help farmers meet their cash flow needs but also gives them the opportunity to set a floor price for their wheat and barley. The EPO was extended to all classes of wheat (excluding durum) for the 2002-03 crop year. Under the EPO, a total of 130 696 tonnes of wheat were delivered for sale through the CWB in 2002-03. A total of 897 farmers signed EPO contracts. The maximum value for No.1 CWRS 13.5 per cent protein that could have been locked in under an EPO for the 2002-03 crop year was just over $270 per tonne.

FINANCIAL RESULTS

Once grain is delivered to the CWB for marketing purposes, there is no segregation between deliveries made as a pool participant and those made under the FPC or BPC programs. The final return of the grades and classes of grain delivered under the FPC and BPC programs are paid from the pool to the respective program. In 2002-03, this amounted to $8,644,633 for wheat and $459,469 for durum. When other revenue like hedging gains, liquidated damages and program expenses

(including interest and administrative expenses) are accounted for, the FPC and BPC programs showed a surplus of $20,166 on wheat and a deficit of $9,806 on durum.

For the wheat EPO, although wheat pool returns fell short of the contracted amounts paid to producers, hedging activities and the program discount more than offset this shortfall to leave the program in a surplus position of $570,253. Although there were no farmer deliveries under the feed barley EPO in 2002-03, the program did show a surplus of $6,906 as a result of interest earned on the program's contingency fund balance. The resulting surplus on all PPO's was $587,519. (see Financial Statement note 14).

Credit Sales

CREDIT SALES DURING YEAR

(000's)	2002-03	2001-02
Credit Grain Sales Program	$ –	$ 131,554
Agri-food Credit Facility	95,750	114,717
Credit assumed by others	95,750	158,568
Total credit sales	191,500	404,839
Total Sales	**$3,339,872**	$4,379,269

CREDIT PROGRAMS

The Government of Canada provides repayment guarantees on CWB credit sales. New credit proposals are recommended by the CWB for review and approval by the government. Acting within credit limits and terms approved by the government, the CWB works with individual customers to structure credit facilities. These credit arrangements are structured according to commercial terms and can be an important factor in foreign markets. During 2002-03, credit sales totaled $191.5 million, representing 5.7 per cent of total sales, compared to $404.8 million, or 9.2 per cent of sales in the previous year.

The CWB uses two credit programs:

Credit Grain Sales Program (CGSP)

The CGSP was established to facilitate CWB grain sales made on credit to customers that can provide a sovereign guarantee of repayment from their central bank or ministry of finance. During the year ended July 31, 2003, there were no grain sales under the CGSP program (compared to $131.6 million the previous year).

The balance receivable at July 31, 2003 was $5.9 billion. Of this amount, $5.0 billion represented receivables, where payment of principal and interest has been rescheduled over periods ranging from five to 25 years under terms agreed to by the Government of Canada. Included in the rescheduled amount was $26.2 million to be paid to the CWB by the government under debt-reduction arrangements, where the government had assumed certain amounts that otherwise would have been paid by the debtor government.

Overdue amounts of $801.6 million are due from Iraq as at July 31, 2003. Iraq is not currently honoring its payment obligations because of United Nations sanctions. Since the Government of Canada guarantees repayment of 100 per cent of the principal and interest of the CGSP receivables, the CWB makes no allowance for credit losses (see Financial Statement note 3).

Agri-food Credit Facility (ACF)

The ACF was established to facilitate CWB grain sales made on credit, directly or through accredited exporters, to commercial (non-government) customers around the world. The Government of Canada, together with the CWB, evaluates each transaction. During the year ended July 31, 2003, $95.7 million of grain was sold under the ACF program, compared to $114.7 million during the previous year.

The balance receivable at July 31, 2003 from sales made under this program was $30.4 million. The Government of Canada guarantees a declining percentage of the receivables under this program based on the repayment period, with the CWB assuming the residual risk not guaranteed. The portion of credit risk assumed by the CWB under this program at July 31, 2003 was $600,000. This is considered collectable, therefore there was no allowance made for credit losses (see Financial Statement note 3).

Credit Assumed by Others

The CWB may partner with other parties in providing credit to CWB customers. In these cases, the CWB receives payment for the other party's portion of the credit transaction. The other party then assumes the risk of non-payment by the customer on their portion of the credit extended. During the year ended July 31, 2003, credit provided by other parties under these arrangements totaled $95.7 million, compared to $158.6 million during the previous year.

Funding

The CWB is committed to minimizing borrowing costs and maintaining access to money through exploring new borrowing opportunities, as well as expanding and diversifying its investor base.

Under *The Canadian Wheat Board Act,* and with the approval of the federal Minister of Finance, the CWB is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness.

All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the Minister of Finance, resulting in the top long-term and short-term credit ratings from Moody's Investor Service (Aaa / P-1), Standard and Poor's Ratings Group (AAA / A-1+) and Dominion Bond Rating Service (AAA / R-1(high)).

The CWB borrows money to finance grain inventories, accounts receivable from credit sales, administrative and operating expenses and to administer the Government of Canada's advance payment programs. The CWB borrows in a variety of currencies, but mitigates currency risk by converting borrowings into either Canadian or U.S. dollars to match the assets being financed.

The CWB manages multiple debt portfolios ranging between $6 billion and $7 billion CDN outstanding. These include:

- Domestic Commercial Paper Program (the "Wheat Board Note" program);
- U.S. Commercial Paper Program;
- Euro Commercial Paper Program; and
- Euro Medium-Term Note Program.

Although the notes issued under the Euro Medium-Term Note Program typically have a 10 to 15 year original term to maturity and are therefore considered long-term debt for reporting purposes, many of these notes are redeemable by the CWB before maturity due to embedded call features. During 2002-03, most of the outstanding medium-term notes were called, resulting in a significant reduction in long-term debt (see Financial Statement note 8, 2003 - $0.347 billion, 2002 - $1.517 billion).

Financial risk management

The CWB seeks to minimize risks related to its financial operations. The CWB actively manages exposures to financial risks and ensures adherence to approved corporate policies and risk-management guidelines.

MARKET RISK

Market risk is exposure to movements in the level or volatility of market prices that may adversely affect the CWB's financial condition. The market risks to which the CWB is exposed are commodity, foreign exchange and interest rate risk.

Commodity price risk is exposure to reduced revenue for the CWB resulting from adverse change in commodity prices. The CWB uses exchange-traded futures and option contracts to mitigate commodity price risk inherent to its core business.

One of the CWB's major commodity risk management programs involves managing the price risk associated with customer basis contracts. The CWB manages the risk of an adverse movement in the price of grain between the time the grain is sold and when the customer prices the grain by using exchange-traded derivative contracts. The CWB may also use derivative contracts to price grain when there is insufficient opportunity to do so in the physical market. In addition, the CWB manages commodity price risk related to various payment options offered to Prairie farmers.

Foreign exchange risk is the exposure to changes in foreign exchange rates that may adversely affect Canadian dollar returns to the CWB. Sales made by the CWB are priced either directly or indirectly in U.S. dollars, resulting in exposure to foreign exchange risk.

To manage foreign exchange risk, the CWB hedges foreign currency sales values using derivative contracts to protect the expected Canadian dollar proceeds on sales contracts. In addition, the CWB manages foreign exchange risk as it relates to various payment options offered to Prairie farmers.

Interest rate risk is the exposure to changes in market interest rates that may adversely affect the CWB's net interest earnings. The CWB's interest rate risk arises from the mismatch in term and interest rate re-pricing dates on the CWB's interest earning assets and interest paying liabilities. The spread between the interest earning assets and interest paying liabilities represents net interest earnings, which are paid to farmers annually.

CREDIT RISK

Credit risk is the risk of potential loss should a counterparty fail to meet its contractual obligations. The CWB is exposed to credit risk on non-guaranteed credit sales accounts receivable, as well as credit risk on investments and over-the-counter derivative transactions used to manage the CWB's market risks.

ACCOUNTS RECEIVABLE FROM CREDIT SALES

The CWB sells grain under two government-guaranteed export credit programs: the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see the "Credit sales" section on page 39 and Financial Statement note 3.

INVESTMENTS

The CWB uses short-term investments for the purpose of cash management, adhering to requirements of *The Canadian Wheat Board Act,* the CWB's annual borrowing authority granted by the Minister of Finance and applicable government guidelines. The CWB manages investment-related credit risk by transacting only with highly rated counterparties.

DERIVATIVE TRANSACTIONS

The CWB enters into master agreements with all counterparties to minimize credit, legal and settlement risk. The CWB transacts only with highly rated counterparties who meet the requirements of the CWB's financial risk management policies. These policies meet or exceed the Minister of Finance's credit policy guidelines.

The CWB's commodity futures and option contracts involve minimal credit risk, as the contracts are exchange traded. The CWB manages its credit risk on futures and option contracts by dealing through exchanges which require daily mark-to-market and settlement.

LIQUIDITY RISK

Liquidity risk is the risk that the CWB will be unable to meet its corporate obligations. In the normal course of operations, the CWB's diversified funding programs provide sufficient liquidity to meet daily cash requirements. The CWB may hold highly rated short-term investments to ensure that sufficient funds are available to meet debt obligations. Additionally, the CWB maintains lines of credit with financial institutions to provide supplementary access to funds.

OPERATIONAL RISK

Operational Risk is the risk of loss resulting from a breakdown in administrative procedures and controls or any aspect of operating procedures. The CWB's operational risk management philosophy encourages an environment of effective operational risk discipline. Operational risk management activities include segregation of duties, cross-training and professional development, disaster recovery planning, use of an integrated financial system, internal and external audits and an independent risk-control and reporting function.

Outlook

The precipitation that fell in the fall of 2002 brought welcome and widespread relief from the drought. With the exception of an area between Edmonton, Alberta and Prince Albert, Saskatchewan, which came into 2003 with continuing concerns over dryness, soil moisture conditions at seeding were far more promising than they had been the previous spring.

As the spring and early summer advanced, moisture conditions were good. In some areas, hopes for an above-average crop were dashed when dryness returned in July. Excessive heat and dry, parching winds also stressed Prairie crops. Where rain did fall, yields were excellent. Furthermore, harvesting conditions in the fall of 2003 were generally ideal, enabling farmers to harvest their crop almost without interruption. As a result, the grade pattern for the 2003 crop was excellent with a very high percentage of the crop grading No. 1 or No. 2.

Production in other major exporting nations also rebounded. Farmers in the U.S. harvested a very large crop and in Australia, drought conditions subsided and production bounced back to

normal levels. The exception was the European Union where crops, especially durum, were affected by drought and very high temperatures in late summer.

In countries like those of the former Soviet Union (Ukraine and Russia) which emerged as significant exporters in 2002-03, production was much less than in the previous crop year. In stark contrast to 2002-03 where their exports represented a significant amount of world trade in wheat, some of them are expected to be importing grain in 2003-04 to meet their own needs.

Many parts of North Africa harvested bumper crops. This has a significant impact on demand conditions for Canadian durum as three of the top five markets for durum in 2002-03 were located in this area.

Other factors have also affected the markets for western Canadian grain. The most important of these is the on-going strength of the Canadian dollar compared to the U.S. dollar. The foreign exchange rate for the Canadian dollar in the fall of 2003 is approximately 20 per cent lower than it was at the same time the previous year.

The effects of the BSE crisis can be felt in the domestic feed grain market. Uncertainty in the cattle markets as well as an extremely large U.S. corn crop have pressured domestic feed grain prices downward and have brought them closer in line with international feed grain values. This has made the international marketplace a more attractive option for Prairie farmers.

A sudden increase in the cost of ocean freight, especially on the Pacific Ocean, has occurred because of increased Asian demand for coal and iron ore. This has affected buyer behaviour and when and how they take delivery of the grain they purchase. As a result, transportation of grain out of Western Canada towards the ports of Vancouver and Prince Rupert has also been hampered.

Overall, the CWB's 2003-04 marketing program will focus on regaining market share after the previous year's crop that was characterized by a poor grade pattern and reduced volumes.

The 2003-04 crop year will see continued activity on a number of other fronts that are of concern to western Canadian farmers.

Monsanto's application for environmental and human safety approvals for its genetically-modified Roundup Ready wheat is still before the federal government at this time. The CWB has made sure that the federal authorities have sound scientific studies before them and continues to pressure the Canadian government to include a cost-benefit analysis in the approval process for crops, like Roundup Ready wheat, that have novel traits.

The U.S. is pursuing its policy of trade harassment towards the farmers of Western Canada. Tariffs imposed by the U.S. Department of Commerce on imports of Canadian spring wheat remain in place. The CWB is appealing these tariffs and is working with the Canadian government, as well as the governments of Alberta and Saskatchewan, to get them removed. At the same time, the U.S. administration has filed a World Trade Organization (WTO) case against Canada and we are also fighting these allegations of unfair trading.

Lastly, the federal government continues to review its regulations governing rail transportation. The CWB, together with farm groups throughout Western Canada, is working to ensure that the resulting legislative framework builds more competition into the rail transportation system. With transportation costs representing such a significant portion of farmers' marketing costs, it is vital that grain-handling and transportation on the Prairies be as efficient and economical as possible.

Forward-looking information

Certain forward-looking statements contained in this annual report are subject to risk and uncertainty because they rely on assumptions and estimates based on current information. A number of factors could cause actual results to differ from those expressed, including, but not limited to: weather; changes in government policy and regulations; world agricultural commodity prices and markets; changes in competitive forces; and global political/economic conditions, including grain subsidy actions of the U.S. and the EU.

Financial results

Management's Responsibility for Financial Reporting

The financial statements of the Canadian Wheat Board included in this Annual Report are the responsibility of the Corporation's management and have been reviewed and approved by the board of directors. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and reflect the results for the 2002-03 pool accounts, producer payment options and the financial status of the Corporation at July 31, 2003.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by an internal audit department that conducts periodic reviews of different aspects of the Corporation's operations.

The board of directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of directors exercises this responsibility through the Audit, Finance and Risk Committee of the board of directors, which is composed of directors who are not employees of the Corporation. The Audit, Finance and Risk Committee meets with management, the internal auditors and the external auditors on a regular basis, and the external and internal auditors have full and free access to the Audit, Finance and Risk Committee.

The Corporation's external auditors, Deloitte & Touche LLP, are responsible for auditing the transactions and financial statements of the Corporation and for issuing their report thereon.

Adrian Measner

Adrian Measner
President and Chief Executive Officer

Gordon P. Menzie
Executive Vice-President, Finance

Winnipeg, Manitoba
November 21, 2003

Deloitte.

Auditors' Report

To the Board of Directors of the Canadian Wheat Board

We have audited the financial statements of the Canadian Wheat Board which consist of the balance sheet as at July 31, 2003 and the combined statement of pool operations and statement of distribution for the 2002-03 pool accounts, the statements of operations and statements of distribution for the 2002-03 pool accounts for wheat, durum and barley for the period August 1, 2002 to completion of operations on July 31, 2003 and for designated barley for the period August 1, 2002 to completion of operations on August 31, 2003, the statement of payment option program operations for wheat, durum and barley for the period August 1, 2002 to July 31, 2003, the statement of cash flow for the year ended July 31, 2003, and the statement of administrative expenses for the year ended July 31, 2003. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinon on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2003 and the results of its operations and its cash flows for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
November 21, 2003

Balance Sheet

(000's)

AS AT JULY 31	2003	2002
ASSETS		
Accounts Receivable		
Credit programs (Note 3)	$ 5,903,578	$ 6,965,448
Non-credit sales	4,450	15,166
Advance payment programs (Note 4)	374,824	394,921
Prepayment of inventory program	73,429	42,102
Due from Government - funding of wheat pool deficit	85,388	–
Other	30,500	59,190
	6,472,169	7,476,827
Inventory of Grain (Note 5)	1,121,941	905,643
Deferred and Prepaid Expenses (Note 6)	35,306	18,972
Capital Assets (Note 7)	53,881	56,762
Total Assets	**$ 7,683,297**	**$ 8,458,204**
LIABILITIES		
Borrowings (Note 8)	$ 6,431,472	$ 7,336,362
Accounts Payable and Accrued Expenses (Note 9)	137,872	115,016
Liability to Agents (Note 10)	876,815	550,015
Liability to Producers – Outstanding Cheques	3,746	34,644
Liability to Producers – Undistributed Earnings (Note 11)	208,595	402,859
Provision for Producer Payment Expenses (Note 12)	2,614	3,687
Special Account (Note 13)	4,948	4,199
Contingency Fund (Note 14)	17,235	11,422
Total Liabilities	**$ 7,683,297**	**$ 8,458,204**

Approved by the board of directors:

Ken Ritter

Ken Ritter
Chair, board of directors

Adrian Measner

Adrian C. Measner
President and Chief Executive Officer

Combined pool accounts

For the crop year ended July 31 (dollar amounts in 000's)	2003	2002
STATEMENT OF POOL OPERATIONS*		
Receipts (tonnes)	13 430 948	18 836 452
Revenue	**$ 3,339,872**	**$ 4,379,269**
Direct costs		
Freight	144,050	190,654
Terminal handling	68,470	77,722
Inventory storage	56,940	59,819
Country inventory financing	13,577	11,684
Inventory adjustments (Note 15)	405	15,535
Other grain purchases (Note 16)	11,718	10,724
Other direct expenses (Note 17)	23,544	18,411
Total Direct costs	**318,704**	**384,549**
Net revenue from operations	**3,021,168**	**3,994,720**
Other income (Note 18)	132,672	188,487
Net interest earnings	54,816	91,639
Administrative expenses (Note 19)	(54,082)	(50,446)
Grain industry organizations	(1,799)	(1,689)
Earnings for distribution	**$ 3,152,775**	**$ 4,222,711**

* Excludes operation of producer payment option programs

STATEMENT OF DISTRIBUTION		
Earnings distributed to pool participants		
Receipts (tonnes)	13 391 012	18 684 301
Initial payments on delivery	$ 2,789,347	$ 3,366,342
Adjustment payments	222,473	401,370
Interim payment	151,527	209,793
Final payment	57,050	192,959
Producer contract storage payments	3,568	12,955
Rebate on producer cars	17	107
Total Earnings distributed to pool participants	3,223,982	4,183,526
Government funding of pool deficit	(85,388)	-
Non-pool Producer Payment Option programs		
Receipts (tonnes)	39 936	152 151
Sales returns paid to payment programs	9,104	32,070
Transferred to contingency fund		
Undistributed earnings	5,077	7,115
Total Distribution	**$ 3,152,775**	**$ 4,222,711**

Wheat pool

For the crop year ended July 31 (dollar amounts in 000's)	2003 Total	2003 Per Tonne	2002 Total	2002 Per Tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**8 696 221**		**13 330 652**	
Revenue	**$ 2,076,582**	**$ 238.79**	**$ 3,003,802**	**$ 225.33**
Direct costs				
Freight	86,758	9.98	122,690	9.20
Terminal handling	42,290	4.86	61,683	4.63
Inventory storage	35,707	4.11	38,495	2.89
Country inventory financing	9,460	1.08	8,193	0.61
Inventory adjustments (Note 15)	9,741	1.12	9,837	0.74
Other grain purchases (Note 16)	8,226	0.95	9,802	0.74
Other direct expenses (Note 17)	16,667	1.92	12,330	0.92
Total Direct costs	**208,849**	**24.02**	**263,030**	**19.73**
Net revenue from operations	**1,867,733**	**214.77**	**2,740,772**	**205.60**
Other income (Note 18)	97,883	11.26	126,312	9.47
Net interest earnings	39,458	4.54	69,709	5.23
Administrative expenses (Note 19)	(35,016)	(4.03)	(35,708)	(2.68)
Grain industry organizations	(1,092)	(0.13)	(1,123)	(0.08)
Earnings for distribution	**$ 1,968,966**	**$ 226.41**	**$ 2,899,962**	**$ 217.54**

* Excludes operation of producer payment option programs

	2003 Total	2003 Per Tonne	2002 Total	2002 Per Tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**8 658 121**		**13 178 501**	
Initial payments on delivery	$ 1,866,790	$ 215.61	$ 2,336,994	$ 177.33
Adjustment payments	178,919	20.66	293,024	22.23
Interim payment	–	–	99,460	7.55
Final payment	–	–	138,342	10.50
Rebate on producer cars	–	–	72	0.01
Total Earnings distributed to pool participants	2,045,709	236.27	2,867,892	217.62
Government funding of pool deficit	(85,388)	(9.86)	–	–
Non-pool Producer Payment Option programs				
Receipts (tonnes)	**38 100**		**152 151**	
Sales returns paid to payment programs	8,645	226.89	32,070	210.78
Total Distribution	**$ 1,968,966**	**$ 226.41**	**$ 2,899,962**	**$ 217.54**

Durum pool

For the crop year ended July 31 (dollar amounts in 000's)	2003		2002	
	Total	Per Tonne	Total	Per Tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**3 803 596**		**3 246 369**	
Revenue	**$ 1,060,762**	**$ 278.89**	**$ 933,324**	**$ 287.50**
Direct costs				
Freight	57,174	15.03	63,478	19.55
Terminal handling	25,804	6.78	15,553	4.79
Inventory storage	17,101	4.50	14,805	4.56
Country inventory financing	3,128	0.82	1,768	0.54
Inventory adjustments (Note 15)	(9,512)	(2.50)	4,909	1.51
Other grain purchases (Note 16)	1,386	0.36	1,614	0.50
Other direct expenses (Note 17)	4,454	1.17	3,849	1.19
Total Direct costs	**99,535**	**26.16**	**105,976**	**32.64**
Net revenue from operations	**961,227**	**252.73**	**827,348**	**254.86**
Other income (Note 18)	7,206	1.89	18,140	5.58
Net interest earnings	8,535	2.24	11,978	3.68
Administrative expenses (Note 19)	(15,316)	(4.03)	(8,705)	(2.68)
Grain industry organizations	(478)	(0.13)	(274)	(0.08)
Earnings for distribution	**$ 961,174**	**$ 252.70**	**$ 848,487**	**$ 261.36**

* Excludes operation of producer payment option programs

STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**3 801 760**		**3 246 369**	
Initial payments on delivery	$ 747,652	$ 196.66	$ 621,925	$ 191.58
Adjustment payments	35,371	9.30	83,431	25.70
Interim payment	132,318	34.80	108,702	33.48
Final payment	45,357	11.93	34,399	10.59
Rebate on producer cars	17	–	30	0.01
Total Earnings distributed to pool participants	960,715	252.69	848,487	261.36
Non-pool Producer Payment Option programs				
Receipts (tonnes)	**1 836**		–	
Sales returns paid to payment programs	459	250.26	–	–
Total Distribution	**$ 961,174**	**$ 252.70**	**$ 848,487**	**$ 261.36**

Barley pool

For the crop year ended July 31 (dollar amounts in 000's)	2003 Total	2003 Per Tonne	2002 Total	2002 Per Tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	39 698		54 373	
Revenue	**$ 6,680**	**$ 168.28**	**$ 8,855**	**$ 162.86**
Direct costs				
Freight	7	0.17	(43)	(0.80)
Terminal handling	387	9.75	244	4.49
Inventory storage	217	5.46	424	7.81
Country inventory financing	18	0.45	3	0.06
Inventory adjustments (Note 15)	22	0.57	(21)	(0.38)
Other grain purchases (Note 16)	(17)	(0.43)	(534)	(9.83)
Other direct expenses (Note 17)	37	0.93	64	1.18
Total Direct costs	**671**	**16.90**	**137**	**2.53**
Net revenue from operations	**6,009**	**151.38**	**8,718**	**160.33**
Other income (Note 18)	252	6.35	399	7.34
Net interest earnings	5,467	137.70	7,913	145.54
Administrative expenses (Note 19)	(160)	(4.03)	(146)	(2.69)
Grain industry organizations	(5)	(0.13)	(5)	(0.08)
Earnings for distribution	**$ 11,563**	**$ 291.27**	**$ 16,879**	**$ 310.44**
STATEMENT OF DISTRIBUTION				
Earnings distributed to producers				
Receipts (tonnes)	39 698		54 373	
Initial payments on delivery	$ 5,889	$ 148.33	$ 7,057	$ 129.79
Adjustment payments	37	0.94	366	6.74
Interim payment	–	–	1,631	30.00
Final payment	560	14.11	708	13.02
Rebate on producer cars	–	–	2	0.04
Total Earnings distributed to producers	6,486	163.38	9,764	179.59
Transferred to contingency fund				
Undistributed earnings (Note 14)	5,077	127.89	7,115	130.85
Total Distribution	**$ 11,563**	**$ 291.27**	**$ 16,879**	**$ 310.44**

Designated barley pool

For the crop year ended August 31 (dollar amounts in 000's)	2003 Total	2003 Per Tonne	2002 Total	2002 Per Tonne
STATEMENT OF POOL OPERATIONS				
Receipts (tonnes)	891 433		2 205 058	
Revenue	**$ 195,848**	**$ 219.70**	**$ 433,288**	**$ 196.50**
Direct costs				
Freight	111	0.12	4,529	2.05
Terminal handling	(11)	(0.01)	242	0.11
Inventory storage	3,915	4.39	6,095	2.76
Country inventory financing	971	1.09	1,720	0.78
Inventory adjustments (Note 15)	154	0.17	810	0.37
Other grain purchases (Note 16)	2,123	2.38	(158)	(0.07)
Other direct expenses (Note 17)	2,386	2.68	2,168	0.98
Total Direct costs	**9,649**	**10.82**	**15,406**	**6.98**
Net revenue from operations	**186,199**	**208.88**	**417,882**	**189.52**
Other income (Note 18)	27,331	30.66	43,636	19.78
Net interest earnings	1,356	1.52	2,039	0.92
Administrative expenses (Note 19)	(3,590)	(4.03)	(5,887)	(2.67)
Grain industry organizations	(224)	(0.25)	(287)	(0.13)
Earnings for distribution	**$ 211,072**	**$ 236.78**	**$ 457,383**	**$ 207.42**

STATEMENT OF DISTRIBUTION				
Earnings distributed to producers				
Receipts (tonnes)	891 433		2 205 058	
Initial payments on delivery	$ 169,016	$ 189.60	$ 400,366	$ 181.57
Adjustment payments	8,146	9.14	24,549	11.13
Interim payment	19,209	21.55		
Final payment	11,133	12.49	19,510	8.85
Producer contract storage payments	3,568	4.00	12,955	5.87
Rebate on producer cars	–	–	3	–
Total Distribution	**$ 211,072**	**$ 236.78**	**$ 457,383**	**$ 207.42**

Statement of payment option program operations

For the crop year ended July 31 (dollar amounts in 000's)	2003	2002
WHEAT PROGRAMS		
FIXED PRICE/BASIS PRICE CONTRACT		
Receipts (tonnes)	**38 100**	**152 151**
Revenue		
Sales returns paid to program	$ 8,645	$ 32,070
Net hedging activity	–	1,704
Liquidated damages	326	649
Net interest	90	–
Total Revenue	9,061	34,423
Expense		
Contracted amounts paid to producers	8,391	29,673
Net hedging activity	294	–
Net interest	–	77
Bad debt expense	–	427
Administrative expense (Note 19)	356	323
	9,041	30,500
Net surplus on program operations	**$ 20**	**$ 3,923**
EARLY PAYMENT OPTION		
Receipts (tonnes)	**130 696**	**11 308**
Revenue		
Program discount	$ 852	$ 21
Net hedging activity	1,717	6
Liquidated damages	38	1
	2,607	28
Expense		
Pool returns less than contracted price	1,993	–
Net interest	43	4
	2,036	4
Net surplus on program operations	**$ 571**	**$ 24**
TOTAL WHEAT PROGRAMS (Note 14)	**$ 591**	**$ 3,947**

Statement of payment option program operations

For the crop year ended July 31 (dollar amounts in 000's)	2003	2002
DURUM PROGRAM		
FIXED PRICE CONTRACT		
Receipts (tonnes)	**1 836**	–
Revenue		
Sales returns paid to program	$ 459	$ –
Liquidated damages	10	–
Total Revenue	469	–
Expense		
Contracted amounts paid to producers	389	–
Net hedging activity	69	–
Net interest	3	–
Administrative expense (Note 19)	18	–
	479	–
Net deficit on program operations (Note 14)	**$ (10)**	**$ –**
BARLEY PROGRAM		
EARLY PAYMENT OPTION		
Receipts (tonnes)	–	**2 501**
Revenue		
Program discount	$ –	$ 18
Liquidated damages	–	3
Net interest	7	5
	7	26
Expense		
Net hedging activity	–	11
	–	11
Net surplus on program operations (Note 14)	**$ 7**	**$ 15**

Statement of cash flow

(000's)

FOR THE CROP YEAR ENDED JULY 31	2003	2002
Increases (Decreases) of cash during the year		
Cash Flow from Operating Activities		
Pool earnings for distribution	$ 3,152,776	$ 4,222,711
Producer payment option programs operations	263	1,565
Interest earned on non-program contingency fund balance	148	–
Add non-cash items		
Depreciation on CWB hopper cars	2,698	2,574
Depreciation on other capital assets	7,797	7,392
Cash flow from operating activities before changes in working capital	3,163,682	4,234,242
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	28,176	(7,920)
Inventory of grain	(216,298)	90,160
Deferred and prepaid expenses	(16,335)	(11,677)
Accounts payable and accrued expenses	22,857	(10,015)
Liability to agents	326,800	(44,204)
Liability to producers for outstanding cheques	(30,898)	2,569
Provision for producer payment expenses	(1,073)	(1,082)
Special account	749	919
	3,277,660	4,252,992
Cash Flow from Financing Activities		
Increase (Decrease) in borrowings	(904,890)	(308,614)
	(904,890)	(308,614)
Cash Flow from Investing and Other Activities		
Accounts receivable - credit programs	1,061,870	213,905
Purchase of capital assets	(7,941)	(7,019)
Proceeds from sale of capital assets	327	552
	1,054,256	207,438
Cash Distributions		
Prior year undistributed earnings	(402,859)	(341,476)
Current year distributions prior to July 31	(3,015,388)	(3,780,667)
Non-pool producer payment option payments	(8,779)	(29,673)
	(3,427,026)	(4,151,816)
Net Increase in Cash and Cash Equivalents	–	–
Net Cash Position at Beginning of Year	–	–
Net Cash Position at End of Year	$ –	$ –

Statement of administrative expenses

(000's)

FOR THE CROP YEAR ENDED JULY 31	2003	2002
Human resources	$ 35,692	$ 38,158
Office services	3,720	4,279
Professional fees	12,596	3,395
Computer services	3,568	2,674
Facilities	2,283	2,165
Travel	1,363	1,976
Advertising & promotion	806	1,748
Other	664	950
Training	228	467
Depreciation	7,797	7,392
Recoveries	(2,053)	(1,951)
Total Administrative Expenses (Note 19)	**$ 66,664**	**$ 61,253**

Notes to the financial statements

1. ACT OF INCORPORATION AND MANDATE

The Canadian Wheat Board (the Corporation) was established by *The Canadian Wheat Board Act,* a statute of the Parliament of Canada. On June 11, 1998, Bill C-4, *An Act to Amend The Canadian Wheat Board Act* continued the Corporation as a shared governance corporation, without share capital, effective December 31, 1998.

The Corporation was created for the purpose of marketing grain grown in Western Canada to domestic and export customers. The Corporation is headed by a Board of Directors, comprised of 10 producer-elected and five government-appointed members. The Corporation is accountable for its affairs to both western Canadian farmers through its elected Board members and to Parliament through the Minister responsible for the Canadian Wheat Board.

The Corporation is exempt from income taxes pursuant to Section 149(1)(d) of the *Income Tax Act.*

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the Corporation's significant accounting policies.

RESULTS OF OPERATIONS

The financial statements at July 31 include the final operating results for all pool accounts and programs for the crop year ended July 31, where marketing operations have been completed thereafter. In determining the financial results for such pools and programs, the accounts of the Corporation at July 31 include:

Revenue – Revenue from grain sales is recognized in the accounts at the time that shipment is made, at a value defined in the sales contract.

Inventory – Inventory of grain on hand at July 31 is valued at the amount of sales proceeds that is ultimately expected to be received as sale proceeds.

Direct operating expenses and incomes subsequent to July 31 – A provision is made for direct operating expenses and incomes occurring subsequent to July 31 relating to the marketing of grain inventories on hand at July 31. The amounts, which primarily relate to inventory storage, inventory financing and grain movement, are accrued to the appropriate Operating Statement account and are reflected in the Balance Sheet as accounts payable or other receivables.

ALLOWANCES FOR LOSSES ON ACCOUNTS RECEIVABLE

Accounts receivable from credit programs – The Government of Canada guarantees the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sales Program and a declining percentage, based on the repayment term of the credit, of all receivables resulting from sales made under the Agri-food Credit Facility. The Corporation assumes the risk not covered by the Government of Canada. For receivables resulting from credit sales made outside of the Credit Grain Sales Program and the Agri-food Credit Facility, the Corporation may enter into arrangements with commercial banks who will assume the credit risk without recourse.

Accounts receivable from non-credit sales – Shipments are made pursuant to the receipt of appropriate letters of credit issued by commercial banks that guarantee the receipt of funds by the Corporation.

Accounts receivable from advance payment programs – The Government of Canada guarantees the repayment of the principal amount due from producers resulting from cash advances made under the *Agricultural Marketing Programs Act* and the *Spring Credit Advance Program.*

With respect to receivables from credit programs, non-credit sales and advance payment programs, as a result of these guarantees and arrangements, no provision is made with respect to the possibility of debtors defaulting on their obligations. Other receivable accounts are monitored and allowances for losses are provided for where collection is deemed unlikely.

CAPITAL ASSETS AND DEPRECIATION

Capital assets are recorded at cost and depreciated on a straight line method over their expected useful life as follows:

Asset Class	Term (years)
Computer equipment	1 to 6
Computer systems development	2 to 10
Automobiles	3
Building and office improvements	3
Office furniture and equipment	10
Hopper cars	30
Building	40
Leasehold improvements	Term of lease

TRANSLATION OF FOREIGN CURRENCIES

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance sheet date. Exchange adjustments arising from the translation of foreign currency denominated assets or liabilities are recognized in the period in which they occur, as a component of revenue. Borrowings in currencies other than the Canadian or

United States dollar are hedged by cross-currency interest rate swaps and currency swaps and are converted into Canadian or United States dollars at the rates provided therein. The Corporation hedges its United States dollar assets and liabilities on a portfolio basis primarily by matching United States dollar assets with United States dollar liabilities.

Sales contracts denominated in foreign currencies are hedged by foreign exchange forward contracts. Forward exchange contracts are translated into Canadian dollars at the rates provided therein. These amounts are recorded in revenue as an adjustment to the underlying sales transactions.

Other income and expenses are translated at the daily exchange rates in effect during the year.

The net foreign exchange gains included in operations for the year ended July 31, 2003 are $7,935,552 (2002 - $4,760,885).

DERIVATIVE FINANCIAL AND COMMODITY INSTRUMENTS

The Corporation uses various types of derivatives such as swaps, forwards, futures and option contracts in order to manage its exposure to currency, interest rate and commodity price risks. These instruments are designated as hedges and are only used for risk management purposes. The Corporation assesses on an ongoing basis whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Corporation recognizes derivative financial and commodity instruments as a hedge of the underlying exposure. The realized and unrealized gains and losses from these derivatives are recognized in income in the same period as the respective underlying exposure. Effective August 1, 2003, the Corporation has adopted the Canadian Institute of Chartered Accountants Accounting Guideline AcG13 Hedging Relationships.

Interest rate contracts are used to manage interest rate risk associated with the Corporation's funding and asset/liability management strategies. The amounts to be paid or received under single currency and cross-currency interest rate swap contracts are recognized in the period in which they occur, as a component of net interest earnings.

Foreign exchange contracts are used to hedge currency exposure arising from grain sales, producer payment options (PPO) and funding operations. The amounts to be paid or received under forward and option contracts are recognized in the same pool account or PPO program in which the related foreign currency transaction occurs as a component of revenue. The amounts to be paid or received from currency contracts used to hedge currency risk from funding operations are recognized in the period, in which they occur, as a component of net interest earnings.

Commodity contracts are used to manage price risk arising from grain sales and PPO's. The amounts to be paid or received under future and option contracts are recognized as a component of revenue, in the same pool account or PPO program as the related sale or PPO program that is being hedged.

NET INTEREST EARNINGS

Net interest earnings includes interest revenue and expenses related to accounts receivable and borrowings, bank charges, transaction and program fees on borrowing facilities and interest earned on each pool account during the pool period and until final distribution of earnings to producers.

EMPLOYEE FUTURE BENEFITS

Employees of the Corporation are entitled to specified benefits provided upon retirement or termination.

Pension Plan – Effective July 1, 2003, the Corporation began administrating its own pension plan for its employees. Previously, employees participated in the *Public Service Superannuation Act (PSSA)* pension plan administered by the Government of Canada. Currently, the Corporation is negotiating with the Government of Canada for the transfer of pension assets from the *PSSA* for employees choosing to transfer past service to the new plan. This transfer of assets from the *PSSA* will occur in the future. When the asset transfer amount is known, the value of these assets, the related accrued benefit obligation and other disclosures will be presented prospectively according to the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461, Employee Future Benefits.

The Corporation sponsors two defined benefit pension plans and a defined contribution plan. The defined benefit components provide pension based on years of service and average earnings prior to retirement. The defined contribution component provides pension based on contributions made and investment earnings. Employer contributions to the Corporation's pension plan are expensed during the year in which the services are rendered.

Under the plan administered by the Government of Canada, the Corporation matches employees' contributions for current or prior service. These contributions are expensed during the year in which the services are rendered.

Other Post-Employment Benefits – The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets over the periods in which the employees render services in return for the benefits. The Corporation has adopted the following policies:

- The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health care costs. Post-employment benefits include health care, life insurance, long service allowance, unused sick leave accumulated prior to 1988, and unused vacation accumulated prior to 1996.
- The transitional obligation as at July 31, 2000 was $13,685,546 and is being amortized over the Average Remaining Service Period (ARSP) which is 15 years.
- Actuarial gains (losses) over 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets are amortized over the ARSP.

3. ACCOUNTS RECEIVABLE FROM CREDIT SALES PROGRAMS

(000's)	Credit Grain Sales Program	Agri-food Credit Facility	**2003 Total**	2002 Total
Due from Foreign Customers				
Current	$	$ 30,416	**$ 30,416**	$ 196,345
Overdue	801,609	–	**801,609**	884,086
Rescheduled	5,045,332	–	**5,045,332**	5,854,174
	5,846,941	30,416	**5,877,357**	6,934,605
Due from Government of Canada	26,221	–	**26,221**	30,843
	$ 5,873,162	$ 30,416	**$ 5,903,578**	$ 6,965,448
Credit Risk				
Guaranteed by Government of Canada	$ 5,873,162	$ 29,808	**$ 5,902,970**	$ 6,964,243
Assumed by CWB	–	608	**608**	1,205
	$ 5,873,162	$ 30,416	**$ 5,903,578**	$ 6,965,448

Accounts receivable balances are classified under the following applicable credit programs:

CREDIT GRAIN SALES PROGRAM

Accounts receivable under this program arise from sales to Algeria, Brazil, Egypt, Ethiopia, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. Of the $5,846,940,933 principal and accrued interest due from foreign customers at July 31, 2003, $4,389,683,187 represents the Canadian equivalent of $3,124,774,478 repayable in United States funds. Of the $6,874,364,143 principal and accrued interest due from customers at July 31, 2002, $5,279,682,444 represents the Canadian equivalent of $3,335,449,140 repayable in United States funds.

Overdue accounts receivable at July 31, 2003 represent amounts due from Iraq where payments for past credit sales had not been received on due dates and were still outstanding at year end.

Through a forum known as the Paris Club, the Government of Canada and other creditors have periodically agreed to extend repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country for a variety of reasons, including humanitarian concerns. All members of the Paris Club are obligated to grant the debtor country the same treatment. Under terms agreed to by the Government of Canada at the Paris Club, the Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Algeria, Brazil, Egypt, Ethiopia, Haiti, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. The terms vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

In addition to debt rescheduling by means of extending repayment terms, the Government of Canada has agreed to reduce the debt owed to the Corporation by Ethiopia, Poland and Zambia. Under these debt reduction arrangements, amounts that otherwise would have been paid by the debtor government are paid to the Corporation by the Government of Canada. A total of $26,221,826 was due from the Government of Canada as at July 31, 2003 under these debt reduction agreements. Of this amount, $6,995,147 represents the Canadian equivalent of $4,979,461 that will be repayable in United States funds.

There is no allowance for credit losses, as the Government of Canada guarantees repayment of the principal and interest of all credit receivables under this program.

AGRI-FOOD CREDIT FACILITY

Accounts receivable under this facility arise from sales to customers in Indonesia, Mexico, and Peru. The July 31, 2003 balance of $30,415,531 for principal and accrued interest due under the Agri-food Credit Facility (ACF) represents the Canadian equivalent of $21,651,147 repayable in United States funds. The July 31, 2002 balance of $60,241,181 represents the Canadian equivalent of $38,057,477 repayable in United States funds.

There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. No allowances have been made for credit losses because Management considers the accounts collectible in their entirety.

FAIR VALUE

All accounts receivable resulting from sales made under credit programs as at July 31, 2003 have contractual interest rate repricing dates under 365 days. As a result of the short terms to repricing dates of these financial instruments, fair value approximates the carrying values.

MATURITIES

These accounts receivable mature as follows:

(000's)	**2003**	2002
Amounts due:		
Within 1 year	**$ 493,794**	$ 604,612
From 1 - 2 years	**499,181**	448,988
From 2 - 3 years	**567,198**	536,784
From 3 - 4 years	**589,296**	609,792
From 4 - 5 years	**620,961**	634,378
Over 5 years	**2,331,538**	3,246,808
Overdue	**801,610**	884,086
	$ 5,903,578	$ 6,965,448

4. ACCOUNTS RECEIVABLE FROM ADVANCE PAYMENT PROGRAMS

(000's)	Agricultural Marketing Programs Act	Prairie Grain Advance Payment Act	Spring Credit Advance Program	Unharvested Grain Advance Program	**2003 Total**	2002 Total
Due from Producers						
Principal balances outstanding	$ 46,325	$ –	$ 325,212	$ 831	**$ 372,368**	$ 392,842
Due from (to) Government of Canada						
Recovery of interest costs on producers' interest free portion of advances	1,373	–	2,547	14	**3,934**	3,877
Amounts collected from producers and grain companies subsequent to reimbursement by Government of Canada	(466)	(7)	–	–	**(473)**	(987)
Interest on defaulted accounts collected from producers on behalf of Government of Canada	(957)	(2)	(46)	–	**(1,005)**	(811)
	(50)	(9)	2,501	14	**2,456**	2,079
	$ 46,275	$ (9)	$ 327,713	$ 845	**$ 374,824**	$394,921

The Corporation administers the cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the Government of Canada. The Government guarantees the repayment of advances made to producers, therefore the Corporation is not exposed to credit risk. The Corporation recovers its costs of administering the programs from the Government and from producers using the program.

The Government of Canada introduced the *Agricultural Marketing Programs Act (AMPA)* in 1997 to provide producers with cash flow by advancing money for grain stored on the farm. This program replaced a previous Government of Canada program under the *Prairie Grain Advance Payments Act (PGAPA)*. The Government of Canada pays interest on advances up to $50,000, and the producer pays interest on any amounts in excess of $50,000.

The Government of Canada introduced the *Spring Credit Advance Program (SCAP)* in the spring of 2000 to assist producers with spring seeding costs. The program enables producers to receive up to $50,000 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*.

Effective December 2002, under the *AMPA* legislation, the Corporation began administering an advance payment program for unharvested grain. This program was implemented to assist farmers who were unable to harvest their grain due to unusual weather conditions. Producers can receive up to $25,000 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*.

Cash advances issued during the year by the Corporation under these programs totalled $653,517,409, including $322,313,225 issued under the *AMPA*, $330,070,984 issued under the *SCAP* and $1,133,200 issued under the unharvested grain advance program.

5. INVENTORY OF GRAIN

Inventory of grain at July 31 is reported at values ultimately expected to be received as sale proceeds as follows:

(dollar amounts in 000's)	**2003** Tonnes	**2003** Amount	2002 Tonnes	2002 Amount
Wheat	2 981 996	**$ 649,368**	2 136 847	$ 531,831
Durum	1 584 030	**413,060**	1 038 583	282,946
Barley	30 589	**5,677**	23 944	4,680
Designated Barley	241 853	**53,836**	416 634	86,186
	4 838 468	**$1,121,941**	3 616 008	$ 905,643

6. DEFERRED AND PREPAID EXPENSES

(000's)	**2003**	2002
Purchase and lease-renewal options on leased hopper cars	**$ 4,193**	$ 4,526
Deposits on commodity margin accounts	**10,930**	2,948
Net results of commodity hedging activities applicable to subsequent pool accounts	**18,216**	9,690
Other	**1,967**	1,808
	$ 35,306	$ 18,972

7. CAPITAL ASSETS

(000's)	2003 Cost	2003 Accum Deprec.	2003 Net Book Value	2002 Cost	2002 Accum Deprec.	2002 Net Book Value
Computer systems development	**$ 54,582**	**$ 25,086**	**$ 29,496**	$ 48,934	$ 19,450	$ 29,484
Hopper cars	**83,583**	**65,473**	**18,110**	83,900	62,925	20,975
Computer equipment	**14,891**	**11,179**	**3,712**	14,557	10,664	3,893
Furniture & equipment	**4,971**	**3,557**	**1,414**	4,610	3,287	1,323
Land, building and improvements	**8,275**	**7,505**	**770**	7,982	7,273	709
Automobiles	**512**	**133**	**379**	563	196	367
Leasehold improvements	**158**	**158**	–	159	148	11
	$ 166,972	**$ 113,091**	**$ 53,881**	$160,705	$ 103,943	$ 56,762

The Corporation purchased 2,000 hopper cars in 1979-80 having an original cost of $90,555,620. Of these cars, 154 cars have been wrecked and dismantled, leaving 1,846 still in the fleet. The Corporation is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

8. BORROWINGS

The Corporation issues debt in world capital markets. The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are unconditionally and irrevocably guaranteed by the Minister of Finance on behalf of Her Majesty in right of Canada through an explicit guarantee included in *The Canadian Wheat Board Act.*

Short-term borrowings consist of commercial paper issued by the Corporation in the Canadian, United States and Euro markets, bank loans and medium-term notes with remaining maturities less than one year. The Corporation uses swaps in the same notional amounts and with the same terms as the underlying borrowings to convert the currency exposure to either the Canadian dollar or the United States dollar.

Long-term borrowings are notes issued in the Euro Medium Term Note market with an original term to maturity between one and fifteen years. The majority of the Corporation's long-term notes are structured securities where interest is calculated based on certain index, formula or market references and are redeemable by the Corporation before maturity due to embedded call features. The Corporation uses swap contracts to mitigate currency risk and manage interest rate risk associated with long-term borrowings. These contracts ultimately create a floating rate obligation similar to the Corporation's short-term borrowings and ensure that the Corporation will receive proceeds from the swap to offset currency and interest rate fluctuations on the notes' principal and interest payments.

(dollar amounts in 000's)	Effective Interest Rate (%)	**2003**	2002
Short-term borrowings	0.86 – 3.52	**$ 7,515,620**	$ 6,005,296
Long-term borrowings	0.68 – 1.15	**346,873**	1,517,028
Accrued interest	–	**29,072**	28,333
Total borrowings	0.68 – 3.52	**7,891,565**	7,550,657
Less temporary investments	1.05 – 3.02	**(1,460,093)**	(214,295)
Net borrowings	0.68 – 3.52	**$ 6,431,472**	$ 7,336,362

Of the net borrowings at July 31, 2003, $4,410,350,021 represents the Canadian equivalent of $3,139,486,063 that will be repayable in United States funds. Of the net borrowings at July 31, 2002, $5,364,721,459 represents the Canadian equivalent of $3,389,172,695 repayable in United States funds.

After giving effect to interest rate swaps, all borrowings have contractual interest rate repricing dates of 365 days or less and, as a result, carrying values of these borrowings approximate their fair values.

These borrowings mature as follows:

(000's)	**2003**	2002
Amounts due:		
within 1 year	**$ 7,544,692**	$ 6,067,682
from 1 – 3 years	–	–
from 3 - 4 years	**33,777**	23,999
from 4 - 5 years	**56,192**	514,442
over 5 years	**256,904**	944,534
	$ 7,891,565	$ 7,550,657

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(000's)	2003	2002
Accounts payable and accrued liabilities	$ 61,867	$ 49,630
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	63,786	45,888
Deferred sales revenue	12,219	19,498
	$ 137,872	$ 115,016

10. LIABILITY TO AGENTS

(000's)	2003	2002
Grain purchased from producers	$ 756,076	$ 465,734
Deferred cash tickets	120,739	84,281
	$ 876,815	$ 550,015

GRAIN PURCHASED FROM PRODUCERS

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation, based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for grain on hand at country elevator points and in transit at July 31 for which delivery to and settlement by the Corporation is to be completed subsequent to the year end date.

DEFERRED CASH TICKETS

Grain companies, acting in the capacity of agents of the Corporation, deposit in trust with the Corporation an amount equal to the value of deferred cash tickets issued to producers for Corporation grain. The Corporation returns these funds to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

11. LIABILITY TO PRODUCERS – UNDISTRIBUTED EARNINGS

Represents the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. Of the undistributed earnings, totalling $208,594,604 (2002 - $402,859,044), $151,527,062 (2002 - $209,792,684) was distributed to producers in an interim payment on October 3, 2003. The balance of $57,067,542 (2002 - $193,066,360) will be distributed to producers through final payments and producer car rebates.

12. PROVISION FOR PRODUCER PAYMENT EXPENSES

The amount of $2,614,031 (2002 - $3,687,300) represents the balance of the reserve for producer payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor in Council.

13. SPECIAL ACCOUNT

In accordance with the provision of Section 39 of *The Canadian Wheat Board Act,* the Governor in Council may authorize the Corporation to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor in Council, upon the recommendation of the Corporation, may deem to be for the benefit of producers.

The activity in the Special Account is comprised of:

(000's)	2003	2002
Beginning of year	$ 4,199	$ 3,281
Transfer from payment accounts	1,622	2,105
Expenditures	(868)	(1,185)
Payments to producers against old payment accounts	(5)	(2)
End of year	$ 4,948	$ 4,199
Ending balance comprised of:		
Unexpended authorizations	$ 780	$ 1,102
Not designated for expenditure	4,168	3,097
	$ 4,948	$ 4,199

During the year ended July 31, 2003, the balance from payment accounts for 1995 Wheat, 1995 Durum and 1995 Designated Barley were transferred to the Special Account under Order-in-Council P.C. 2003-592.

Program activity during the 2002-03 crop year is detailed as follows:

(000's)	Unexpended, beginning of year	Authorized	Expended	Expired	Unexpended, end of year
Market development program	$ 113	$ 250	$ (37)	$ –	$ 326
Scholarship program	149	251	(281)	–	119
Canadian International Grains Institute					
Capital expenditures	65	250	(130)	–	185
Test Baking Facility	300	–	(95)	(205)	–
Agribusiness Chair -- University of Manitoba	225	–	(75)	–	150
Automated Quality Testing	250	–	(250)	–	–
	$ 1,102	$ 751	$ (868)	$ (205)	$ 780

14. CONTINGENCY FUND

The Canadian Wheat Board Act provides for the establishment of a contingency fund. The contingency fund can be populated through a variety of mechanisms such as the results of operations of the producer payment options or other sources of revenue received in the course of operations. The components of the contingency fund are described below:

PRODUCER PAYMENT OPTION PROGRAMS

The Corporation has implemented payment alternatives to producers. The Fixed Price Contract/Basis Price Contract (FPC/BPC) provides producers with the opportunity to lock in a fixed price or basis for all or a portion of their grain prior to the beginning of the crop year. Full payment for the grain is received immediately after delivery and the producer is not eligible for other payments from the pool account. The Early Payment Option (EPO) provides the producer with a greater portion of their expected final pool price at time of delivery, while their deliveries remain eligible for other payments from the pool account.

The surplus or deficit arising from the operation of these programs is transferred to a contingency fund so that net operating results will not impact the pool accounts.

OTHER

As provided for under the Act, interest earnings of $5,076,898 from the 2002-03 barley pool (2001-02 $7,114,908) have been transferred to the contingency fund. The transfer amount is based on a specific formula approved by the board of directors. The formula ensures that a fair amount of interest earnings, on a per-tonne basis, are allocated to the barley pool and the distorting effect of certain fixed costs in years when pool volume is unusually low, is mitigated.

Consistent with the treatment applied to the pools and producer payment option programs, the surplus is not specifically funded and earns interest at the Corporation's weighted average cost of borrowing.

The contingency fund balance at July 31, 2003 is detailed as follows:

	Producer Payment Option Programs			Other	**2003**	2002
(000's)	Wheat	Durum	Barley		**Total**	Total
Opening surplus, beginning of year	$ 4,074	$ -	$ 233	$ 7,115	**$ 11,422**	$ 345
Transferred from Pool accounts	-	-	-	5,077	**5,077**	7,115
Surplus from Producer Payment Option programs	591	(10)	7	-	**588**	3,962
Interest earned on non-program fund balances	-	-	-	148	**148**	-
Closing surplus, end of year	$ 4,665	$ (10)	$ 240	$12,340	**$ 17,235**	$11,422

15. INVENTORY ADJUSTMENTS

Inventory Adjustments capture the related dollar impact, at the current initial price, of changes in grade and protein in the grain delivered by producers, from the grain that is ultimately available for sale.

Overall promotion in the grain handling system is disclosed as an expense to the pool because the Corporation compensates grain companies for the increase in current initial price value created by positive blending activities. Generally, there is an overall benefit to the pool to the extent that the greater sales value returned to the pool, from selling higher quality grain, exceeds the increase in the initial value.

In the case of demotions, the opposite is true. The pools' overall sales value will be lower from having lower quality grain to sell, compared to that which was reported and upon which the Corporation must still make future adjustment, interim and final payments. This loss is partially mitigated because the grain companies are only reimbursed the value of the lower quality grain whereas they have paid the farmer the higher initial payment of the higher quality grain originally reported as delivered.

16. OTHER GRAIN PURCHASES

Other grain purchases captures the net result of inventory overages acquired at initial price and inventory shortages sold at export price. These overages and shortages occur when the Corporation's agents' inventory records differ from that of the Corporation. Acquired overages are recorded as an expense to the pool with the pool benefiting to the extent that the ultimate sales proceeds of this grain exceed its cost. Shortages must be settled by the Corporation's agents at export price so that the pool is not negatively impacted by the disappearance of recorded stocks.

17. OTHER DIRECT EXPENSES

Other direct expenses are primarily made up of contract cancellation charges, program expenses, agent's commissions, fees for inspection and testing of grain, Corporation owned and leased hoppers cars, and demurrage.

18. OTHER INCOME

Other income is primarily made up of the Freight Adjustment Factor recovery and recovery of charges, deducted by the Corporation's agents at time of producer delivery, that were subsequently not incurred by the agent. The most significant charge recovered comprises the recovery of the rail freight cash ticket deduction when grain moves to a location other than terminal position.

19. ADMINISTRATIVE EXPENSES

Beginning with the 2002-03 crop year, the Corporation has discontinued the policy of applying a portion of the subsequent crop year's administrative expense to the current year pool results. This amount was intended to represent the administrative cost of marketing the current crop year inventory in stock at July 31. Typically, the amount brought into the current results approximates the amount of current year expenses that was allocated to the previous crop year. As a result, the application of the policy had a minimal impact to the pool results. The new policy does not attempt to redistribute administrative expense between crop years and simply allocates the administrative expenses, occurring during the fiscal year ending July 31, as reported in the Statement of Administrative Expenses, to that crop year's results.

The new policy has been applied prospectively, beginning with the 2002-03 crop year. Retroactive restatement is not possible as prior year pool results are finalized and settled with producers and there is no mechanism to recover or pay out amounts arising from subsequent adjustments. The estimated impact of this change to the 2002-03 crop year is to reduce administrative expense allocated to the pools by approximately $18 million or $1.34 per tonne. There is no impact to the amounts allocated to the payment option programs or the producer payment accounts.

Administrative expenses, less the expenses attributable to the distribution of final payments and the incremental costs related to the payment option programs, are allocated to each pool on the basis of relative tonnage.

During 2002-03, the Corporation incurred approximately $9.7 million ($0.72 per tonne) in legal costs to defend anti-dumping (AD) and countervailing duty (CVD) petitions filed by the North Dakota Wheat Commission and the U.S. Durum Growers Action Committee against imports of Canadian hard red spring wheat (HRS) and durum and to assist the Government of Canada in the defence of a World Trade Organization challenge. These costs are included in administrative expenses and are therefore allocated to each pool based on relative tonnage as described above. This allocation is deemed appropriate because, although the actions were directed at wheat and durum, the actions were in effect challenges to the Corporation's single-desk mandate and the defense served to protect the interest of all grains. This methodology is consistent with the treatment of legal costs incurred for prior years' trade challenges.

(000's)	2003	2002
Administrative expenses for fiscal year ended July 31	**$ 66,664**	$ 61,253
Current fiscal year's expense related to administration of the prior year's pool accounts	**(11,993)**	(22,256)
Subsequent fiscal year's expense related to administration of the current year's pool accounts (estimated)	–	11,993
Prior fiscal year's expense related to administration of the current year's payment option programs	**83**	148
Current fiscal year's expenses related to administration of the subsequent year's payment option programs	–	(83)
Adjusted Administrative expenses	**$ 54,754**	$ 51,055
Allocated as follows:		
Wheat pool	**$ 35,016**	$ 35,708
Durum pool	**15,316**	8,705
Barley pool	**160**	146
Designated Barley pool	**3,590**	5,887
Total to pools	**54,082**	50,446
Wheat FPC/BPC payment option program	**356**	323
Durum FPC/BPC payment option program	**18**	-
Producer payment accounts	**298**	286
	$ 54,754	$ 51,055

20. LEASE COMMITMENTS

The Corporation administers leases for grain hopper cars for the Government of Canada with lease terms of 25 years, expiring in 2006. Of the 1,750 cars leased under the original agreements, 84 have been wrecked and dismantled, leaving 1,666 cars in this fleet. All lease costs to the end of the original lease periods are recoverable from the government and are not charged to the pool accounts. Total payments associated with these leases for the year ended July 31, 2003 were $16,658,004 (2002 - $17,388,769).

In 1995, the Corporation purchased an option to extend the lease agreement on 250 hopper cars for a five-year term at a bargain lease rate. Effective October 1, 2000, the Corporation exercised this right on the 244 remaining cars. The cost of the option is being amortized over the term of the five-year extension. The lease payments under this lease extension option are not recoverable from the Government of Canada and will be paid directly by the pool accounts. Effective April 2001, the Corporation sublet the remaining 242 cars to a third party for a term expiring October 2005.

Between 1991 and 1995, the Corporation purchased options to acquire 1,550 of the Government of Canada cars at the end of the lease terms in 2006. Of these cars, 74 cars have been wrecked and dismantled, leaving 1,476 cars, which may be purchased at a total cost of $17,430,029 in United States dollars. The cost of these options is recorded in deferred and prepaid expenses.

The Corporation has entered into operating leases for premises and office equipment. Lease terms are for periods ranging from one to six years, expiring between August 2003 and October 2008. The Corporation has the option to renew most of these leases for additional terms ranging from one to three years. Total lease payments for premises and office equipment expensed in the year ended July 31, 2003 were $1,071,509 (2002 – $1,142,627).

Lease costs on premises and office equipment are charged to Administrative Expenses. Commitments under operating leases are as follows:

(000's)	Hopper Cars (US$)	Premises & Office Equipment (Cdn $)
2004	$456	$947
2005	456	422
2006	76	198
2007	–	162
2008	–	27
After 2008	–	–

21. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

The Corporation enters into single and cross-currency interest rate swap contracts to manage its funding costs and to implement asset/liability management strategies designed to reduce exposure resulting from currency and interest rate fluctuations.

The Corporation also enters into foreign exchange forward and currency swap agreements with financial institutions to hedge currency exposure arising primarily from grain sales and funding operations.

As at July 31, 2003 the total notional amount of these off balance sheet financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2003			2002		
(000's)	Notional Amounts	Net Fair Value	Credit Risk	Notional Amounts	Net Fair Value	Credit Risk
Interest rate contracts						
Single-currency interest rate swaps	**$ 196,812**	**$ (8,562)**	**$ 47**	$ 838,620	$ 886	$ 2,713
Cross-currency interest rate swaps	**163,637**	**3,219**	**5,221**	820,552	34,944	36,089
	360,449	**(5,343)**	**5,268**	1,659,172	35,830	38,802
Foreign exchange contracts						
Forwards	**940,379**	**(12,282)**	**5,851**	644,437	(8,952)	709
Currency swaps	**1,180,301**	**(20,537)**	**3,624**	182,949	10,902	10,902
	2,120,680	**(32,819)**	**9,475**	827,386	1,950	11,611
	$2,481,129	**$ (38,162)**	**$14,743**	$ 2,486,558	$ 37,780	$ 50,413

As of the statement date, interest rate contracts with notional amounts outstanding of $13,575,987 and all foreign exchange contracts mature within one year. The interest rate contracts with maturities between one and five years and beyond five years had notional amounts outstanding of $89,968,841 and $256,904,205 respectively. The swap contracts rates ranged between 0.68% and 1.42%.

The net fair value of interest rate and foreign exchange contracts refers to the estimated net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies, including net present value analysis and quoted market prices, where available. These estimates of fair value are affected by the assumptions used and as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The Corporation is only exposed to credit risk on contracts with a positive fair value. The credit risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the financial risk management policies approved by the Corporation's board of directors. Master netting agreements are used to reduce credit risk from potential counterparty default. The largest notional amount contracted with any institution as at July 31, 2003 was $477,323,291 (2002 – $853,457,961) and the largest credit risk with any institution as at July 31, 2003 was $3,104,487 (2002 – $24,759,486).

22.EMPLOYEE FUTURE BENEFITS

Employee future benefits relate to the Corporation's Pension Plan and the other post-employment benefits.

PENSION PLAN

The Corporation expensed $3,808,273 as its contribution to the PSSA plan to June 30, 2003. The Corporation also expensed, for the one month ended July 31, 2003, $315,669 to the defined benefit component and $2,810 to the defined contribution component of the Corporation's Pension Plan. Total pension expense for PSSA and the Corporation Pension Plan as at July 31, 2003 is $4,126,752 (2002 - $3,719,364). Employees contributed $102,433 to the defined benefit component and $12,389 to the defined contribution component of the Corporation Pension Plan as at July 31, 2003. No benefits have been paid from the Corporation Pension Plan to July 31, 2003.

OTHER POST-EMPLOYMENT BENEFITS

The following tables present information related to post-employment benefit plans provided by the Corporation, including amounts recorded on the Balance Sheet and the components of the cost of net benefits for the period.

The accrued benefit obligation, and resulting plan deficit, at July 31, 2003, as calculated, is $18,615,804. The accrued benefit obligation included on the Corporation's Balance Sheet is:

(000's)	2003	2002
Accrued benefit obligation, beginning of year	**$ 6,031**	$ 4,255
Current service cost	**591**	591
Interest cost	**1,063**	1,098
Benefits paid	**(929)**	(825)
Amortization of transitional obligation	**912**	912
Accrued benefit obligation, end of year	**$ 7,668**	$ 6,031

The Corporation's expense, with respect to other post-employment benefits, included in administrative expenses is:

(000's)	2003	2002
Current service cost	**$ 591**	$ 591
Interest cost	**1,063**	1,098
Amortization of transitional obligation	**912**	912
Total post-employment benefit expense	**$ 2,566**	$ 2,601

The weighted-average assumptions at the measurement date used in the calculation of the Corporation's benefit obligation are shown in the following table:

	2003	2002
Discount rate	**6.0%**	6.5%
Rate of compensation increase	**4.0%**	4.0%

For measurement purposes, benefits provided are assumed to increase at a rate of eight per cent for 2003, grading down by one per cent per year to an ultimate level of three per cent per annum in 2008 and thereafter.

23. CONTINGENT LIABILITY

On September 13, 2002 the North Dakota Wheat Commission and the U.S. Durum Growers Action Committee filed anti-dumping (AD) and countervailing duty (CVD) petitions against imports of Canadian HRS wheat and durum. Over the course of the year, the Corporation vigorously defended these challenges. Tariffs came into effect in March 2003 and May 2003 for the CVD and AD petitions, respectively. On October 3, 2003, the U.S. International Trade Commission (ITC) ruled 4-0 that imports of durum are not causing injury to the U.S. durum growing industry. Accordingly, tariffs on durum were lifted and tariff-free access to the U.S. durum market was re-established. In the case of HRS, the ITC ruled 2-2 that Canadian HRS imports are causing injury and so AD and CVD tariffs totaling 14.15 per cent will be in place pending appeals and/or administrative reviews by the U.S. Department of Commerce. At this time, it is not possible to accurately assess the financial impact of the imposition of tariffs on HRS. The Corporation is pursuing a variety of appeal avenues in respect to the HRS decisions.

24. COMPARATIVE FIGURES

Certain of the prior year's figures have been restated to conform with the current year's presentation.

Glossary of financial terms

Cross-currency interest rate swap – a contractual agreement for specified parties to exchange principal, fixed and floating interest rate payments in different currencies. Notional amounts upon which the interest rate payments are based are not exchanged.

Currency swap – a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.

Derivative financial instrument – a contract or security that obtains much of its value from price movements in a related or underlying security, future or other instrument or index.

Fair value – an estimate of the amount of consideration that would be agreed upon between two arm's length parties to buy or sell a financial instrument at a point in time.

Foreign exchange forward – an agreement to buy and sell currency is simultaneously purchased in the spot market and sold in the forward market or vice-versa.

Futures contract or futures – a future commitment to purchase or deliver a commodity or financial instrument on a specified future date at a specified price. The futures contract is an obligation between the Corporation and the organized exchange upon which the contract is traded.

Hedge – a risk management technique used to decrease the risk of adverse commodity price, interest rate or foreign exchange movements by establishing offsetting or risk-mitigating positions intended to reduce or minimize the Corporation's exposure.

Liquidity – having sufficient funds available to meet corporate obligations in a timely manner.

Notional amounts – a reference amount upon which payments for derivative financial instruments are based.

Option – a contract that grants the right, but not the obligation, to buy or sell a commodity or financial instrument at a specified price at a specified point in time during a specified period.

Risk management – the application of financial analysis and diverse financial instruments to the control and, typically, the reduction of selected types of risk.

Single currency interest rate swap – a contractual agreement for specified parties to exchange fixed interest rate payments for floating interest rate payments based on a notional value in a single currency. Notional amounts upon which the interest rate payments are based are not exchanged.

Swap – a contractual agreement to exchange a stream of periodic payments with a counterparty.

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CWB

Prairie strong, worldwide

all in a day's work

CWB 2003-04 ANNUAL REPORT

Vision

To unite western
Canadian grain farmers
as the world-recognized,
premier grain marketer.

Mission

The CWB markets
and provides quality
products and services
in order to maximize
value to our owners,
western Canadian
grain farmers.

The CWB markets western Canadian wheat and barley in Canada and throughout the world.

All sales revenue, less marketing expenses, is returned to farmers. The CWB is controlled by a board of directors that is comprised of 10 farmer-elected members and five federal government appointees. As a major international grain trader and a major earner of foreign exchange, the CWB enables Prairie wheat and barley producers to go head-to-head with other major players in the grain industry.

FINANCIAL HIGHLIGHTS

	2003-04	2002-03	2001-02	2000-01	1999-2000
Combined pool operating results ($ millions)					
Revenue	**$4,136.2**	$3,339.9	$4,379.2	$4,220.9	$4,457.2
Direct costs	**369.7**	318.7	384.5	350.5	317.8
Net revenue from operations	**3,766.5**	3,021.2	3,994.7	3,870.4	4,139.4
Other income	**161.1**	132.7	188.5	179.9	178.7
Net interest earnings	**56.1**	54.8	91.6	75.2	71.0
Administrative expenses	**(67.6)**	(54.1)	(50.4)	(66.4)	(63.8)
Grain industry organizations	**(1.8)**	(1.8)	(1.7)	(1.7)	(1.7)
Earnings for distribution	**$3,914.3**	$3,152.8	$4,222.7	$4,057.4	$4,323.6
Receipts from producers (000 tonnes)					
Wheat	**12 376**	8 696	13 331	13 961	16 427
Durum	**3 080**	3 804	3 246	3 665	3 976
Designated barley	**2 138**	891	2 205	2 273	2 554
Barley	**844**	40	54	454	672
Total	**18 438**	13 431	18 836	20 353	23 629

A message from the Chair of the board of directors and the President and CEO

The 2003-04 crop year was a time of renewal.

After two consecutive years that saw yields in many areas of Western Canada drastically reduced by drought and grasshoppers, farmers showed that while they are often challenged, they are rarely beaten.

The favourable harvest conditions experienced across much of Western Canada provided many farmers with a chance to bring in a high-quality crop. As always, farmers grabbed onto the opening that nature provided and succeeded in making the most of the opportunity. More than 90 per cent of the spring wheat crop graded No. 1 and No. 2, well above the 65-per-cent average. Protein levels were high, and many farmers felt tremendous satisfaction in terms of the quality they produced.

Sales managers at the CWB quickly moved into action, marketing one of the best quality crops harvested in a decade. Export targets for wheat, durum and barley were set at 16 million tonnes. While a lack of needed rain in some areas meant the target was below the 10-year average of 19.5 million tonnes, it was double the target of the previous drought-ravaged year. The CWB exceeded its export target, selling 16.6 million tonnes of grain and products to more than 70 countries. Here at home, over two million tonnes of grain were sold to domestic buyers. In the end, total sales revenue climbed to $4.1 billion, up from $3.3 billion just one year ago.

There were other accomplishments achieved by the CWB in 2003-04 as well.

- Transportation savings generated by a combination of freight and terminal rebates, CWB financial penalties for non-performance and tendering amounted to over $51 million in 2003-04, a significant increase over the $34 million saved in 2002-03 and the $41 million saved in 2001-02. Despatch savings, which are paid to the CWB when ships leave port ahead of schedule, were also impressive, with a record $15 million returned to farmers.
- A year of progress was experienced in the trade arena. Firstly, the potential tariff on durum going into the U.S. was lifted and secondly, the World Trade Organization (WTO) proclaimed the CWB to be a fair trader following an intense U.S. investigation. Work now must focus on two areas: the new WTO framework agreement for the Doha Round of negotiations, which threatens the CWB's payment and borrowing guarantees; and on having the tariff removed on spring wheat going into the United States.
- A new 100 per cent Early Payment Option for wheat and barley was developed, as part of the CWB's commitment to providing farmers with choice. Changes were also made to Fixed Price and Basis Payment Contracts, which make them easier to use.
- The CWB advocated on behalf of farmers' right to choose how they market their own crop, in response to the Government of Alberta's campaign for a test open market.
- Corporate restructuring was implemented, which positioned the CWB for the future by reducing costs and putting the best people in the right positions. Staff and department restructuring will ensure that farmers' evolving needs are foremost in our business model.
- Monsanto opted to shelve Roundup Ready wheat after the CWB and other industry organizations voiced their objections on behalf of farmers.

As you continue through the Annual Report, you'll read about other successes in more detail, starting with a farmer's personal account of the harvest and ending with a closer look at the day-to-day work conducted by the marketing organization that works for all Prairie wheat and barley farmers.

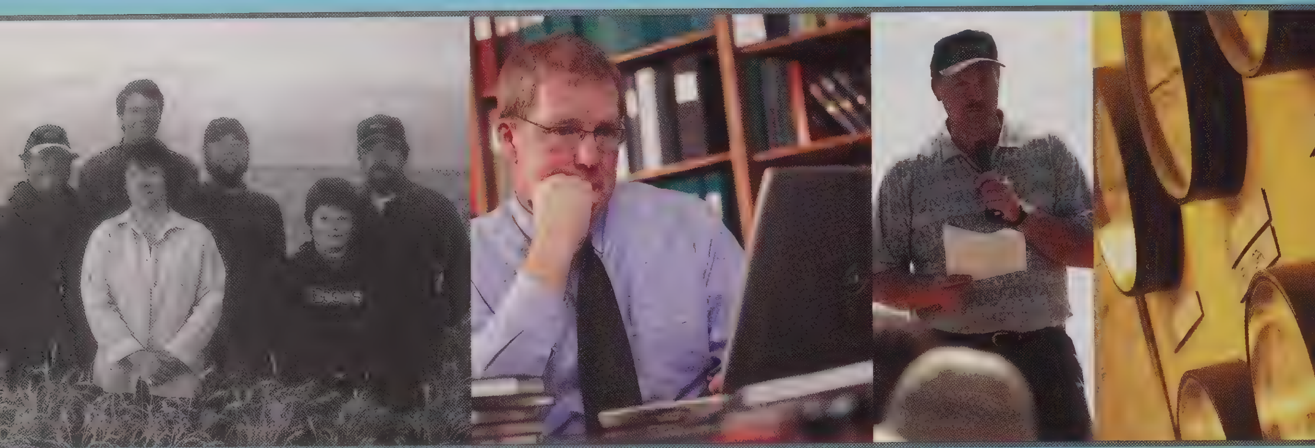
By taking advantage of the excellent harvest conditions following two tough years in a row, the majority of Prairie farmers showed that success is often just another word for determination. As their marketing organization, the CWB embraced that spirit and also has an impressive list of achievements to reflect upon. We salute both the farmers who made this year possible and the staff who worked so hard to add to their efforts.

Ken Ritter

Ken Ritter
Chair, board of directors

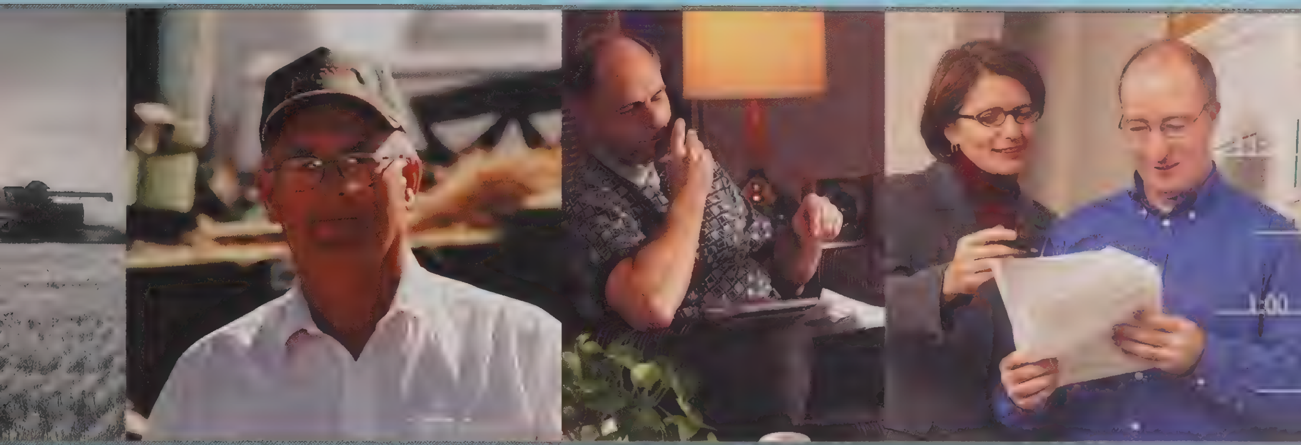
Adrian Measner

Adrian Measner
President and Chief Executive Officer



all in a day's work

The list of what farmers and their marketing organization, the CWB, accomplished in 2003-04 is both impressive and lengthy.



Farmers have often persevered through environmental and financial challenges that others would likely find overwhelming. During seeding and harvest, they frequently put in workdays that start at dawn and last well into the night; a fact of life they consider commonplace.

It isn't only individual farmers who face this test of stamina. Typically, the entire family is called in, working side-by-side to get the crop in or take it off before the weather changes. Family dinners are often eaten in a grain field and sleep is in short supply during these stressful periods. But farmers consider this kind of commitment a normal part of life. It has to be done, and so it is done, each and every day across Western Canada.

The CWB shares a similar spirit and desire to achieve results. Each day, farmers are served, customers are contacted and plans are implemented. Some results are unheralded; others receive more coverage. But each effort is designed with a solitary purpose: to add value by successfully marketing wheat and barley domestically and to more than 70 countries worldwide.

While the days, both on the farm and in the CWB offices, are often long, Prairie grain farmers and their marketing agency accomplish a lot, all in a day's work.

Howard's story

Howard Vincent shrugs off suggestions that a 17-hour workday is beyond the call of duty for the western Canadian grain farmer.

"I've put in days like that my whole life," says the 49-year-old farmer, [illegible] in the farmyard surrounding the home where he was raised, five miles east of Forestburg, Alberta.

Vincett is referring to the annual tradition where western Canadian wheat and barley farmers spend night and day in their fields during harvest, for weeks at a time.

"It's just the kind of effort you've got to put in during harvest season," he says. "Otherwise, the weather could turn wet and you could lose a good crop."

That kind of effort and determination certainly paid off for Vincett during the fall of 2003. Nearly every kernel of Canada Western Red Spring wheat he sowed on his 3,000-acre farm graded No. 1 and averaged over 17-per-cent protein.

"It was an exceptional season for quality and I got some of the best samples I've ever had," he explains. "You can't do anything about bad weather, but you've got to be ready when the weather's good, and that means going until the crop is in."

Long days aren't something Vincett does alone. The entire family, including his wife Cindy, his brother and business-partner Ken, his sister-in-law Val and his two sons, 22-year-old Evan and 20-year-old Steven, work together from sunup to sundown, finishing one field completely before moving on to the next.

On weekends, when the younger Vincetts arrive home from university and college to lend a hand, lunch and dinner are often spent in the field, with the tailgate of a pick-up truck serving as both table and chair. While Cindy runs for machine parts, Howard fills one inoperative combine with fuel and Ken operates another. Soon the repaired combine is running and Cindy climbs into the cab to begin circling the field behind Ken.

Time not spent on the family farm is directed to the Battle River Producer Car Group, a shipping facility Vincett founded with a dozen area farmers in 2003, which allows them to load producer cars locally.

And, as always, he's planning for the future.

"I'm already thinking about what I'll seed next spring, and making plans for the long term; what equipment I'll need, what inputs I'll have to buy."

When asked if he ever longs for a nine-to-five job with regular hours and a steady pay-cheque, his reaction is decisive.

"This is the only lifestyle I want; I could never imagine myself inside all day," he says. "The land I farm has been here for thousands and thousands of years and taking care of it gives me a real sense of purpose."

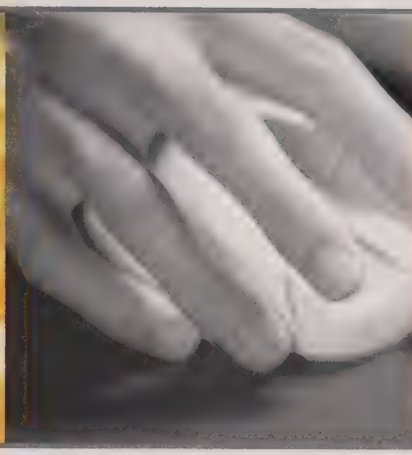
Harvesting one of Western Canada's highest quality crops...

all in a day's work.

Many farmers... one voice

Getting e-mail has become such a standard part of the corporate workday that it doesn't usually create much excitement. But every once in a while, a message arrives in an in-box that changes the mood of the entire day. For CWB senior program manager Patty Rosher, that day was May 10, 2004.

"It was such unexpected good news, that I had to read the message twice," explains Rosher, who manages the CWB's file on biotechnology.



The message responsible for Rosher's reaction was a news release issued by Monsanto, stating the research conglomerate was suspending efforts to introduce Roundup Ready wheat, due to a lack of widespread industry support.

Monsanto had been working on the development of a genetically-modified (GM) wheat, resistant to the company's Roundup Ready herbicide, since 1997. Concern about premature introduction of the variety quickly swept through the industry, as customers in markets that represent more than 87 per cent of CWB wheat sales voiced their objections to purchasing GM wheat.

The CWB's position has consistently been that no GM wheat variety should be introduced until it meets several conditions, the most important being that it represent a net economic benefit to farmers. Analysis conducted by agricultural economists at the University of Saskatchewan showed that Roundup Ready wheat did not pass the cost-benefit test.

The CWB joined forces with other Canadian farmer-based organizations and worked to send Monsanto a clear message: Roundup Ready wheat should not be released.

"We were concerned that losing our markets could spell disaster for the Canadian wheat industry," explains Bill Nicholson, a member of the CWB's board of directors and the lead farmer advocate on the GM file. "Farmers were worried their livelihoods would be at risk."

Other concerns soon surfaced, when a review conducted by CWB agronomist Mike Grenier demonstrated that Roundup Ready wheat would have negative effects on reduced- and zero-tillage crop management systems. Grenier's findings were confirmed when an independent study performed by scientists at the University of Manitoba reached the same conclusions.

"Roundup Ready wheat was proving to be a bad idea from many angles," says Rosher. "We aren't opposed to the benefits that biotechnology might bring in the future, but we needed Monsanto to acknowledge the potential risks that Roundup Ready wheat would bring in the present."

It's a message that Monsanto seemed to have heard. On June 18, 2004, Monsanto announced it was withdrawing all government regulatory applications for Roundup Ready wheat in Canada, a required step in releasing a new wheat variety.

Rosher didn't get much time to relax following the announcement, however. The CWB and other farmer organizations began working almost immediately to jointly lobby the Canadian government to add a cost-benefit analysis to the regulatory decision-making process that will protect farmers' interests if and when new GM varieties are considered in the future.

"We're not opposed to biotechnology in the least," adds Rosher. "New varieties may be developed that have attractive processing or nutritional traits or real agronomic advantages and provide a positive cost-benefit to farmers."

Advocating for farmers by providing one voice...

all in a day's work.

Selling grain around the clock

It's not uncommon for Carroll Bushuk's bedside phone to ring at 3 a.m. The senior marketing manager for Asia Pacific often receives early morning calls from the Pacific Rim, where the clock is 13 hours ahead of Central Standard time.

"Since a single call can mean the difference between making a sale and losing one, I just consider being woken up at all hours to be a normal part of my work day," explains Bushuk.

Bushuk leads a group of CWB sales experts who specialize in servicing the Asian market. In Winnipeg, Bushuk works alongside marketing managers Don Bonner and Derek Sliworsky, who determine sales and marketing strategies for exporting western Canadian wheat and barley to Asia and the Pacific Rim, with a special emphasis on China and Japan, two of the CWB's most valued buyers. The trio also discusses immediate opportunities with Haiguang Shi, general manager of the CWB's Beijing office, and David Iwaasa, general manager of the CWB's Tokyo office.

Bushuk believes the team's effectiveness is based on its ability to provide personal customer service on a daily basis. Recent sales figures show that it's on the right track.

This year, China was the biggest foreign buyer of western Canadian wheat, worth an estimated $500 million to farmers. Nearly 1.5 million tonnes of wheat were sold there in 2003-04, up from just 185 000 tonnes in 2002-03. Significant amounts of western Canadian barley also made their way to China, with 332 000 tonnes exported this year, up from only 81 000 tonnes in 2002-03.

The majority of wheat and barley imported into China is purchased by the China National Cereals, Oil and Foodstuffs Import and Export Corporation (COFCO). Establishing and maintaining sales relationships with COFCO representatives is a primary concern for the CWB, which has cultivated a close association with the grain-buying giant since 1961.

"We're in direct contact with COFCO every day," says Haiguang Shi, general manager of the CWB's Beijing office. "In fact, our offices are located inside COFCO's own building."

Winnipeg staff also travel overseas on a regular basis to meet one-on-one with customers and conduct seminars. In addition, nearly 3,500 Chinese industry professionals have attended the CWB-funded Canadian International Grains Institute (CIGI) courses since the educational organization was launched in 1972.

These contacts are essential to the future of western Canadian wheat and barley exports, as China is expected to be an even more significant buyer in the coming years. With an economy that is one of the fastest growing in the world, Chinese end-users will increasingly have higher incomes to spend on premium foods and beer made with high-quality western Canadian grain.

Currently the most populous country in the world, China is expected to continue growing by 12 million people each year and top out at 1.66 billion people by 2045.

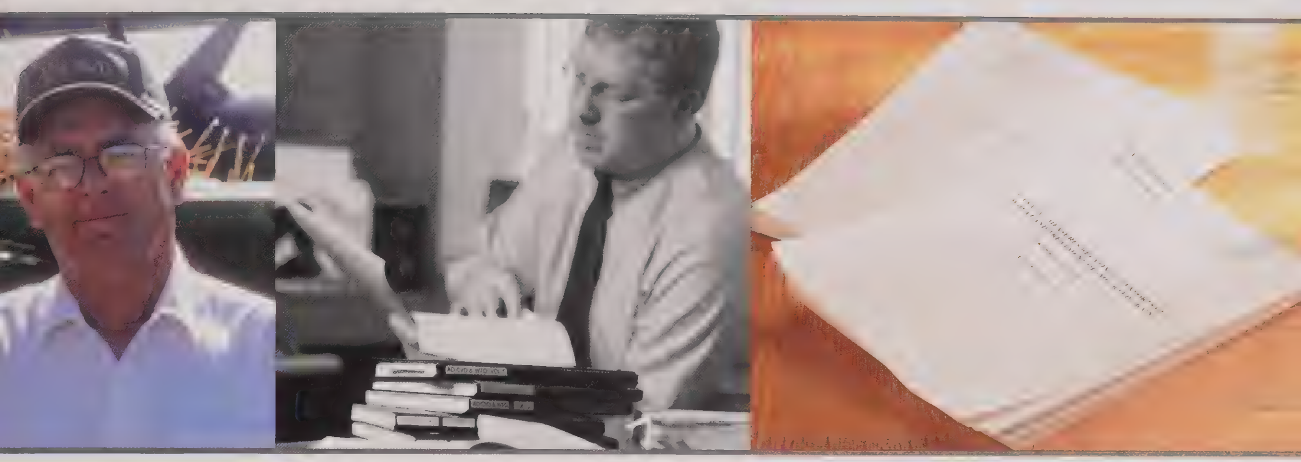
"A bigger population translates into a larger potential customer base," says Bushuk. "CWB staff will continue to provide personal service to existing customers, while also cultivating new contacts."

Selling 1.8 million tonnes of western Canadian grain to China...

all in a day's work.

Fighting for farmers' trading rights

There are six black notebooks stacked on the desk that belongs to Jim McLandress, the CWB's general counsel. The 400 pages in each notebook are filled with the lawyer's handwritten notes and provide a written history of the CWB's battle to protect western Canadian grain farmers from the trade harassment launched by the United States.



"These notebooks are the best way to keep track of the endless legal briefs, submissions, e-mails, conference calls and memos that are part of this case and the others I'm responsible for," explains McLandress. "I've written more than 2,000 pages of notes for my own reference – that doesn't include the official documents we've drafted."

The CWB's latest fight followed a request by the U.S. government that a World Trade Organization (WTO) Dispute Settlement Body (DSB) be established to investigate accusations that the CWB acted non-commercially when negotiating export sales.

The DSB's year-long investigation generated many hours of intensive work for McLandress and a team of CWB trade experts, including Victor Jarjour, vice-president of strategic planning and corporate policy; Dave Simonot, marketing manager for sales policy and planning; and Charray Dutka, policy advisor.

Larry Hill, a member of the CWB's board of directors, has also played an integral role in defending farmers' trading rights, travelling throughout the northern U.S. advocating for trading access on behalf of western Canadian farmers.

"It's a complex issue and developing a convincing argument means paying close attention to every aspect of a case," Hill explains.

Keeping a close eye on the details appears to have provided the winning key. On April 6, 2004, the WTO dispute settlement panel released a written report that exonerated the CWB from American claims of unfair trading practices.

The WTO noted that, because the CWB is controlled by western Canadian farmers, it has an incentive to maximize returns on the grain it sells. The panel also concluded the CWB does in fact act commercially, and works solely in the interest of farmers.

Unfortunately, the U.S. is a tenacious opponent. Following the initial WTO ruling, the U.S. quickly moved to appeal the decision.

"It gets a bit tiresome," explains McLandress. "The team works their tails off. We win. But, before you can blink, the U.S. comes at us again."

Final victory would have to wait another four months, as the WTO appellate body investigated the appeal. On August 30, 2004, news reached the CWB that the WTO appellate body had dismissed the U.S. appeal.

Unfortunately, the CWB's role in defending the marketing rights of western Canadian farmers doesn't end with the WTO's latest decision. The CWB will continue to press for the removal of tariffs on spring wheat entering the U.S. and for the protection of marketing rights during upcoming WTO negotiations.

"Fighting for farmers' trading rights is the cost of doing business, at least for the foreseeable future," says McLandress. "Farmers will need to continue protecting their own interests through the CWB."

Fighting to protect marketing rights...

all in a day's work.

Label it Canadian

When Jim Thompson put his telephone back in its hook, he knew he'd been part of a successful negotiation, because both sides would get something positive out of the deal.

"It's a good move for the customer and it's an excellent advertisement for western Canadian farmers," explains the CWB's senior marketing manager for domestic and export wheat products. "What more could you want in a new business venture?"

Thompson is referring to the April 2004 agreement between the CWB and ADM Milling (Canada) that will see the milling and processing giant print a newly developed CWB visual identity on bags of flour heading to Asia. The new symbol, designed by CWB graphic designer Barbara Chabih, merges wheat stalks into a maple leaf and proudly proclaims that "Canadian Wheat is Best".

"End-use customers equate 'western Canadian' with high quality, so more and more buyers of wheat and barley are interested in using that information as a marketing tool on their products," adds Thompson.

That interest extends outside of flour millers targetting commercial bakers. Producers of retail products are also tapping into the value of the western Canadian identity for end-products. CO-OP, a producer of bread mix marketed to individuals in Asian groceries, labels its bags as containing 100 per cent western Canadian wheat.

Flourbin, a British-based Internet home-baking supplier, offers customers Canada Best and Canadian Brown flour, both advertised as high-protein, high-quality ingredients that sell for a premium of up to $1.72 per kilogram.

In Poland, pasta maker Danuta hired film star Sophia Loren as spokesperson for its "Malma" line of products, which the company also advertises as being made with 100 per cent Canadian amber durum.

International beer customers too, are jumping on the 'brand'-wagon. Tsingtao beer, bottled by China's largest brewery and exported to more than 40 countries, accounts for 80 per cent of total Chinese beer exports. Tsingtao's marketing Web site highlights the fact that every bottle of beer contains at least 50 per cent Canadian malting barley.

According to Thompson, these producers are making the most of the phrase "it's what's inside that counts".

"These flour, pasta and beer makers know that end buyers equate western Canadian wheat and barley with consistently high quality," he explains. "That provides a tangible benefit to farmers because their product is in demand."

Thompson believes that products currently carrying the CWB visual identity only scratch the surface of what is possible in the future. He is presently holding discussions to have the new symbol placed on domestic flour bags and end-products.

"It may take awhile to get there, but we're starting with such a well-known, high-quality product that I have no doubt we'll be successful."

Adding value by branding it 'western Canadian'...

all in a day's work.

Corporate governance

The following section reviews the CWB's performance highlights, farmer-controlled board of directors, committee structure and senior management.

2003-04 CWB annual report survey

We want to hear from you.

As part of our commitment to provide our stakeholders and customers with clear and relevant information, we'd like to know what you think about our annual report.

Please take a few minutes to complete this card and return it to the CWB. Your opinions are important to us and will be used for planning next year's annual report.

Overall	**(5=excellent, 1=poor)**				
Information is clear	5	4	3	2	1
Information is relevant	5	4	3	2	1
Easy to read	5	4	3	2	1

The section I found most interesting was (check one):

____ All in a day's work
____ Management discussion and analysis
____ Corporate governance
____ Financial results

I learned something new about the CWB by reading the annual report.
____ Yes
____ No

Length of content in the report
____ Overall, it was too long
____ Overall, it was too short
____ The length was just right

I would have liked to read more about: ________________

Other comments or suggestions: ________________

I am a:
____ Farmer
____ Domestic customer
____ International customer
____ Financial company
____ Agricultural company
____ Accredited exporter
____ Federal government
____ Provincial government
____ Other

CWB

CANADA POST | POSTES CANADA

Postage paid if mailed in Canada

Business Reply Mail

Port payé si posté au Canada

Correspondance-réponse d'affaires

4656768 01

1000013354-R3C2P5-BR01

CORP COMMUNICATIONS/ANNUAL REPORT
THE CANADIAN WHEAT BOARD
PO BOX 816 STN MAIN
WINNIPEG MB R3C 9Z9

CWB performance highlights

The CWB's performance is measured in terms of its achievements in four distinct areas: farmer, customer, mandate and corporate.

FARMER

Strategic goal: To serve farmers' business needs while significantly increasing farmer support for and trust in the CWB.

INITIATIVES

Develop and implement the CWB customer relationship management strategy.

Use e-business to improve farmer services.

Strengthen farmer understanding and recognition of the value of the CWB marketing system.

Further develop the CWB Producer Payment Options.

Further develop CWB delivery policy.

Continue developing CWB marketing strategy for feed barley.

Provide new transportation and marketing services to farmers and farm interest groups.

Assess opportunities to provide farmers with a platform (e-channel) on which they can create and store their 'farm environmental' and 'on-farm food safety' plans.

Develop corporate performance measurement and reporting.

Conduct a review of the corporation's business model to ensure alignment with the long-term plan and value for money.

ACHIEVEMENTS

Developed an online advance information system for farmers and grain companies.

Increased the number of CWB service agents to 36. Service agents provide administration, contracting and advance services to farmers.

Offered e-contracts to grain companies.

Implemented a full-scale Fixed Price Contract program for durum.

Expanded the Early Payment Option to malting barley.

Launched an Early Payment Option pilot program for durum.

Enhanced the Fixed Price Contract programs for wheat and barley.

Developed a strategy for two pooling periods for feed barley. Created a plan to source feed barley from farmers through Guaranteed Delivery Contracts instead of Series A, B and C delivery contracts.

Implemented a program designed to facilitate the delivery of Alsen wheat from farmers.

Developed and implemented corporate performance measurements and reporting on the CWB's long-term goals.

Completed a corporate restructuring which resulted in increased efficiencies and effectiveness and ensured organizational alignment for delivery of the long-term plan.

CWB performance highlights

CUSTOMER

Strategic goal: To attract, develop and retain markets by delivering quality products and service to customers worldwide.

Review quality control system to optimize its value.

Encourage an increase in supply of malting barley to meet projected trade opportunities.

Provide leadership on the issue of food safety.

Provide leadership on the issue of wheat and barley biotechnology.

Expand trade finance services.

Improve customer relations.

Enhance CWB contractual grain handling arrangements.

Expanded the database of selectable and selected malting barley to provide better information for marketing.

Held a number of malting barley forum meetings with farmers in the winter of 2003-04. Discussed agronomic management, market development for new varieties, selection and delivery contract terms and expanding market opportunities.

Attended a number of extension meetings and produced a number of articles in *Go Malting!* and *Grain Matters* to promote good management practices for malting barley.

Held consultations and focus group discussions with malting barley supply-chain stakeholders to seek agreement on implementing a payment system for malting barley that better reflects quality.

Completed successful product development tests at the Canadian Malting Barley Technical Centre in partnership with Chinese customers, then undertook a 150,000-acre production contract for CDC Copeland in order to guarantee supplies to fit expected commercial demand.

Worked collaboratively with other farm organizations to ask the Government of Canada to add a cost-benefit analysis to the regulatory decision-making process for new agricultural products.

Worked collaboratively with industry partners to complete an on-farm food safety producer manual. Defined an on-farm and post-farm food safety model for the grains, the oilseeds and special crop sector.

Developed and presented customer communications material highlighting the excellent food safety reputation that Canada currently enjoys.

Communicated a strong position regarding the potential negative effect of Roundup Ready wheat to farmers, industry and government, which contributed to Monsanto's decisions to withdraw all regulatory submissions for Roundup Ready wheat in Canada.

Continued to support the Farmer Rail Car Coalition's efforts to acquire the federal hopper cars.

Completed a successful pilot project with direct selection on producer car shipments for the CDC Copeland variety of malting barley being contracted for market development. On the basis of the positive results from this pilot project, the CWB is looking at careful expansion of direct selection through producer cars and through strategic alliances with handling companies over the next two years.

MANDATE

Strategic goal: To strengthen the long-term CWB mandate at home and its support/acceptability in international trade.

INITIATIVES

Create stronger interface with federal, provincial and local stakeholders.

Strengthen the CWB's position in international trade agreements.

ACHIEVEMENTS

Created a Government Relations area to lead the way in building support for the mandate.

Provided advice to government negotiators on several aspects of the World Trade Organization negotiations.

Pressed the government to pursue bilateral trade negotiations in key markets.

CORPORATE

Strategic goal: To achieve excellence in the provision of human resources, financial operations, information technology and other corporate programs and services that support or advance the CWB.

INITIATIVES

Develop and implement human resource planning.

Fully utilize technology to facilitate efficiency, effectiveness and change.

ACHIEVEMENTS

Developed a comprehensive, multi-year human resource strategy focused on ensuring the CWB has the people and human resource programs required to deliver the long-term plan.

Developed and began implementation of an organization-wide core competency initiative.

Initiated an overall review of the organization's total compensation and benefits programs.

Completed an enterprise-wide architecture vision and framework, enabling the organization to make strategic technology decisions.

Implemented a corporate security technical infrastructure, reducing the CWB's vulnerability to external attacks.

Completed the first major data warehouse in the Business Intelligence Program, allowing the CWB to easily evaluate Contract Execution and Pricing Analysis (CEPA).

Pictured l. to r. (front row): Bonnie DuPont, Ross Keith, Edward Zinger, James Chatenay, Lynne Pearson, Adrian Measner, Bill Nicholson; (back row): Wilfred (Butch) Harder, Dwayne Anderson, Rod Flaman, Ken Ritter, Ian McCreary, Allen Oberg, Art Macklin, Larry Hill.

Farmer-controlled board of directors

The board of directors consists of 10 farmer-elected members and four directors appointed by the federal government for their business and financial expertise. The remaining director is the President and Chief Executive Officer (CEO), whose appointment is based on a recommendation from the board of directors. This governance structure has been in place since 1998. It places control of the CWB firmly in farmers' hands and ensures that the CWB is accountable to farmers for everything it does.

Art, along with his wife and son, operates a 1,600-acre grain and cattle farm north-east of Grande Prairie, Alberta. Art is active in both church and community, is a past president of the National Farmers Union and served as chair of the former CWB Advisory Committee.

Jim operates a family farm near Penhold, Alberta. He is a graduate of Olds Agricultural College and served six years as director of the Alberta Charolais Association.

Larry farms 4,300 acres near Swift Current, Saskatchewan. He is a graduate of both Agricultural Engineering and Farm Business Management at the University of Saskatchewan and has worked for Saskatchewan Agriculture.

Ken operates a family farm near Kindersley, Saskatchewan. In addition to farming, he has practiced law and taught school in both Canada and Australia. He has been the chair of the CWB's board of directors since its inception and has served on both the National Transportation Agency and the Saskatchewan Surface Rights Arbitration Board.

ALLEN OBERG (District 5)

Allen and his brother, John, run a grain and cattle operation near Forestburg, Alberta. Allen has served on numerous boards throughout his career, including Alberta Wheat Pool, Agricore and the Canadian Cooperative Association.

IAN McCREARY (District 6)

Ian was raised on the mixed farm near Bladworth, Saskatchewan that he operates today. He holds a Master's degree in Agricultural Economics and has previously worked at the CWB as a marketing manager and policy analyst. Ian's international experience also includes managing a pilot project on food aid and food markets for the Canadian Foodgrains Bank.

DWAYNE ANDERSON (District 7)

Dwayne and his wife, Sheila, operate a 2,600-acre farm in the Fosston-Rose Valley area of Saskatchewan. He served 10 years as President and CEO of North East Terminal Ltd., a farmer-owned inland grain terminal and crop input business. Dwayne was also founding chair of the Inland Terminal Association of Canada.

ROD FLAMAN (District 8)

Rod and his wife, Jeanne, farm just south of the Qu'Appelle Valley near Edenwold, Saskatchewan. They produce a variety of field and horticultural crops, including certified organic grain. Educated at the University of Saskatchewan, Rod has served as a director of Terminal 22 at Balcarres, Saskatchewan and the Saskatchewan Fruit Growers Association.

WILLIAM NICHOLSON (District 9)

Bill and his family operate a 4,500-acre grain farm near Shoal Lake, Manitoba. Bill has a degree in Agricultural Engineering and has worked in the farm machinery industry. In addition to serving on the former CWB Advisory Committee, Bill has been a Manitoba Pool delegate, represented farmers on the Prairie Agricultural Machinery Institute Council and is president of his local credit union board.

WILFRED HARDER (District 10)

Wilfred 'Butch' Harder operates a 4,700-acre grain farm near Lowe Farm, Manitoba, and a 1,200-acre farm at Headingley, Manitoba. He also served on the former CWB Advisory Committee and was a director at Manitoba Pool Elevators for 12 years. As a Manitoba Pool Director, he served as director on the boards of XCAN Grain, Western Co-op Fertilizer Ltd. and the Canadian Cooperative Association.

BONNIE DUPONT (Appointed)

A group vice-president at Calgary's Enbridge Inc., Bonnie has expertise in energy transportation and grain handling and has held senior positions with Alberta Wheat Pool and Saskatchewan Wheat Pool. She holds a Bachelor's degree in Social Work from the University of Regina with majors in Program Administration and Evaluation Psychology and a Master's in Human Resource Management from the University of Calgary.

ROSS KEITH

Ross is the president of a third-generation family farming operation in southern Saskatchewan. He is also president of the Nicor Group property development company and is a former partner in the Regina law firm of MacLean-Keith. He has degrees from the University of Saskatchewan in Arts, Commerce and Law.

Raised on a farm near Holdfast, Saskatchewan, Adrian was educated at the University of Saskatchewan. He has 30 years of experience in the grain industry and has held a variety of positions at the CWB. He was also previously involved in a small grain farm north of Winnipeg, Manitoba.

Lynne is the Dean of the College of Commerce at the University of Saskatchewan and past chair of the Canadian Standards Association. She has held senior positions with several public and private sector organizations and has served on numerous boards. Lynne holds a Bachelor's and Master's degree in Arts and a Bachelor's degree in Journalism.

Ed worked for the Bank of Montreal for more than 39 years. He has extensive experience in corporate, government and investment banking and is a Fellow of the Institute of Canadian Bankers. He is also a graduate of the Senior Executive Program of the Banff School of Advanced Management. Ed is currently enrolled in the Chartered Director Program.

Composition

Elected directors represent 10 electoral districts across Western Canada. *The Canadian Wheat Board Act* requires elections to be held in half of the 10 districts every two years, resulting in directors serving four-year terms. The 2004 elections were held in districts 2, 4, 6, 8 and 10 (after the close of the 2003-04 crop year).

The four appointed directors are named for three-year terms and bring a variety of business expertise to the table. The President and CEO, who leads the senior management team, is also a director. Adrian Measner was appointed President and CEO in January 2003, based on a recommendation by the board of directors.

Mandate

The board of directors is responsible for establishing strategic direction and reviewing and approving strategic plans, budgets, financial statements, the annual business plan and the borrowing plan. The board also ensures management has appropriate systems in place to manage risk, maintain integrity of financial controls and oversee information services.

Results

The board of directors achieved the following results in the 2003-04 crop year:

- Corporate review – approved structural changes to corporate processes and staff composition in the interests of effective and efficient service for farmers and customers.
- Corporate performance measures – approved implementation of a new set of high-level corporate performance measures.
- Trade challenges – ensured processes were in place to respond to challenges at the World Trade Organization, challenge U.S. tariffs on spring wheat and neutralize attempts to place tariffs on durum.
- Strategic planning – approved the long-term plan as a key element of the strategic planning process over the next five years. Approved framework of a new corporate branding strategy. Approved new corporate vision and mission statements.
- Producer Payment Options – approved major improvements to Early Payment Options and Fixed Price and Basis Payment Contracts in response to farmer needs.
- Genetically-modified (GM) wheat – approved a biotechnology position statement reflecting the CWB's strategy and role in preventing the premature release of GM wheat.
- Transportation – reviewed and discussed measures to promote competition between the two national railways in the interests of lower freight rates. Provided farmer input to the House of Commons Standing Committee on Transport.
- Value-added – approved a value-added strategy to build on the growth of Canadian wheat, durum and barley processing. Provided farmer input to the Senate Standing Committee on Agriculture and Forestry.
- Innovative changes – approved a feed barley marketing strategy designed to enhance sales opportunities and send better price signals to farmers. Ensured plans proceed to provide more e-business options. Approved the addition of a domestic medium-term note program to enhance and diversify funding sources.

Committee structure for 2003-04

The board of directors has four standing committees. In 2003-04, there was also one ad hoc committee on trade, reflecting the significance of international trade issues during this time.

Audit, Finance and Risk Committee

Mandate – This committee's primary responsibilities include the review of financial reporting, accounting systems, risk management and internal controls. It facilitates the conduct of an annual audit, assesses performance measures, reviews annual financial statements and accounting practices and reviews financial/business risk policies, plans and proposals.

Members – Larry Hill (chair), James Chatenay, Bonnie DuPont, Ian McCreary, Allen Oberg, Edward Zinger.

2003-04 accomplishments:

Recommended approval of the financial statements and notes for the fiscal year ended July 31, 2003.

Reviewed and recommended approval of the 2004-05 corporate budget and borrowing plan.

Recommended approval to implement a new set of high-level corporate performance measures.

Recommended approval to add a domestic medium-term note program to enhance and diversify CWB funding sources.

Recommended reappointment of the external auditors.

Approved amendments to financial risk-management policies.

Participated in financial literacy training for directors.

Reviewed report and annual plan for Corporate Audit Services.

Governance and Management Resources Committee

Mandate – This committee focuses on governance to enhance board and organizational effectiveness. It also assists the board in fulfilling its obligations related to human resource and compensation matters.

Members – Bonnie DuPont (chair), Dwayne Anderson, James Chatenay, Wilfred Harder, Bill Nicholson, Edward Zinger.

2003-04 accomplishments:

Oversaw the process of board evaluation.

Recommended amendments to the list of director qualifications.

Reviewed and recommended a new employee compensation philosophy and guiding principles.

Oversaw the corporate review process.

Reviewed and recommended the funding policy for the employee pension plan.

Reviewed the employee salary budget for 2004-05.

Reviewed and proposed enhancements to the regulations governing director elections, for recommendation to the federal government.

Recommended that the election coordinator manage a series of candidate forums as part of the 2004 director elections.

Reviewed the director development and education program.

Strategic Issues Committee

Mandate – This committee ensures that strategic and policy issues are identified and that priorities, time frames and processes to address these issues are recommended to the board. It coordinates the board's input to the CWB's strategic planning process.

Members – Bill Nicholson (chair), Dwayne Anderson, Rod Flaman, Wilfred Harder, Ross Keith, Art Macklin, Lynne Pearson.

2003-04 accomplishments:

- Oversaw the board's strategic planning process.
- Reviewed the 2004-05 business plan initiatives.
- Reviewed and recommended approval of payment options and pricing enhancements.
- Recommended approval of a value-added strategy to help build on the growth of Canadian wheat, durum and barley processing.
- Recommended approval of a biotechnology position statement reflecting the CWB's strategy and role in preventing the premature release of GM wheat.
- Recommended approval of a feed barley marketing strategy designed to enhance sales opportunities and send better price signals to farmers.
- Recommended approval of support for the grain research facility at the University of Manitoba and support for fusarium research.
- Recommended approval of enhancements to Pre-delivery top up program.
- Approved new committee terms of reference.

Farmer Relations Committee

Mandate – This committee reviews and recommends to the board strategic plans for farmer relations, communications and government relations.

Members – Ian McCreary (chair), Rod Flaman, Larry Hill, Ross Keith, Art Macklin, Allen Oberg, Lynne Pearson.

2003-04 accomplishments:

- Gave direction on corporate accountability meetings and reviewed results of the meetings.
- Reviewed and gave direction on the annual report.
- Approved new committee terms of reference.
- Recommended approval of objectives for meetings with farm organizations.
- Recommended approval of industry meetings/events to be attended by directors.
- Recommended annual meetings with farm organizations.
- Reviewed the strategy for promotion of increased rail competition in the interests of lower freight rates for farmers.
- Discussed CWB response to Alberta government campaign for a test open market.
- Reviewed the government relations strategy in response to a need for an improved long-term CWB government relations presence among elected officials and bureaucrats.

Ad Hoc Trade Committee

Mandate – This committee reviews and recommends strategies on trade-related issues that could affect the CWB's ability to fulfill its mandate.

Members – Larry Hill (chair), Rod Flaman, Ian McCreary, Art Macklin, Bill Nicholson, Ross Keith.

2003-04 accomplishments:

- Ensured maximum input was provided to Canadian negotiators involved in efforts to reach a new World Trade Organization (WTO) agreement on agriculture.
- Ensured appropriate representation in Geneva and Cancun during WTO agricultural trade negotiations.
- Ensured an adequate legal defence was provided to a U.S. trade challenge at the WTO (and subsequent appeal), leading to the CWB being upheld as a fair trader.
- Ensured processes were in place to lead the legal defence of U.S. Countervailing and Antidumping investigations against Canadian wheat and durum imports.
- Reviewed and recommended approval of a U.S. advocacy strategy to increase understanding of Canada's grain marketing system among U.S. farmers and politicians.
- Ensured ongoing efforts were made towards removal of the U.S. tariff on spring wheat, including NAFTA appeals.
- Ensured legal avenues were in place to successfully quash chances of a U.S. tariff on durum.

Compensation table, 2003-04 crop year

BOARD OF DIRECTORS

Director	District	Remuneration: Retainer	Remuneration: Per diems	Remuneration: Total	Attendance: Board meetings	Attendance: Committee meetings	Attendance: Industry meetings
Arthur Macklin	1	$ 20,000.00	$ 37,600.00	$ 57,600.00	8	19	47
James Chatenay	2	20,000.00	27,450.00	47,450.00	7	23	28
Larry Hill	3	28,000.00	42,875.00	70,875.00	8	25	45
Ken Ritter	4	60,000.00	41,500.00	101,500.00	8	31	61
Allen Oberg	5	20,000.00	27,650.00	47,650.00	8	19	32
Ian McCreary	6	24,000.00	30,300.00	54,300.00	8	24	51
Dwayne Anderson	7	20,000.00	24,500.00	44,500.00	8	16	36
Rod Flaman	8	20,000.00	30,800.00	50,800.00	8	20	44
William Nicholson	9	24,000.00	27,000.00	51,000.00	8	23	40
Wilfred Harder	10	20,000.00	28,350.00	48,350.00	8	16	34
Adrian Measner	A	N/A	N/A	N/A	8	N/A	N/A
Lynne Pearson	A	20,000.00	9,500.00	29,500.00	8	14	1
Edward Zinger	A	20,000.00	16,500.00	36,500.00	8	23	10
Ross Keith	A	20,000.00	13,000.00	33,000.00	8	21	5
Bonnie DuPont	A	24,000.00	15,500.00	39,500.00	8	23	11
TOTAL		**$ 340,000.00**	**$ 372,525.00**	**$ 712,525.00**			

Footnotes:

A = Appointed

Directors are paid an annual retainer and per diem allowances. The board chair receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $4,000 per committee chaired. A per diem of $500 per full regular meeting day is paid to each member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for directors and $100,000 for the board chair. This limit does not apply to the retainer for committee chairmanship, the communication allowance or any other item that the board specifically excludes. Directors do not participate in any corporate pension plan nor any corporate benefit plan, with the exception of travel accident and travel medical insurance. The table above includes remuneration earned in the previous crop year, but paid during 2003-04.

Senior management

The senior management team works in partnership with the board of directors to establish and implement the CWB's vision and mission. The team provides leadership to the CWB, driving the successful implementation of the annual and long-term plans of the organization.

Corporate restructuring was undertaken during this crop year to improve efficiency and to establish a more flexible organization. Changes included those reporting directly to the CEO. In particular, the Corporate Audit function now reports to the Chief Financial Officer and the Legal function now reports to the Executive Vice-President, Corporate Services. With these changes, the senior management team is comprised of the Executive Team, the Vice-Presidents, the Director of Product Development and Marketing Support, General Counsel, and Corporate Secretary. During this crop year there was one resignation at the Vice-President level, with no replacement for this position.

SENIOR MANAGEMENT COMPENSATION

	2003-04 Actual	**2002-03** Actual
Salaries	$ 2,454,359	$ 2,372,811
Benefits	1,289,855	1,256,934
Total	**$ 3,744,214**	$ 3,629,745

Senior management is compensated in accordance with policies approved by the board of directors. In keeping with the CWB Information Policy and in a desire to be open and accountable to farmers, the following table sets forth compensation earned by the President and Chief Executive Officer, as well as the four other highest-paid senior officers for the year ended July 31, 2004.

EXECUTIVE TEAM

[illegible]
President and CEO

[illegible]
Chief Operating Officer

[illegible]
Chief Financial Officer

[illegible]
EVP Corporate Services

[illegible]
VP Human Resources

SENIOR MANAGEMENT

[illegible]
VP Corporate Communications

[illegible]
Chief Information Officer

[illegible]
Corporate Secretary

[illegible]
VP Strategic Planning and Corporate Policy

[illegible]
Corporate Controller

[illegible]
General Counsel

[illegible]
Treasurer

[illegible]
VP Marketing

[illegible]
VP Farmer Relations and Operations

[illegible]
Director Product Development and Marketing Support

SUMMARY COMPENSATION TABLE

Name and principal position	Annual compensation	
	Salary[2]	All other compensation[1]
Adrian Measner President and Chief Executive Officer	$260,000	-
Ward Weisensel Chief Operating Officer	205,000	-
Gordon Menzie Chief Financial Officer	193,379	-
William Spafford Vice-President, Marketing	186,486	-
Margaret Redmond Executive Vice-President, Corporate Services	175,950	-

Notes:

[1] The CWB has no additional compensation plans beyond base salary. The value of perquisites for each senior officer did not exceed the lesser of $50,000 or 10 per cent of total annual salary.

[2] Represents a return to normal salary levels after a five-per-cent salary reduction and a freeze in annual salary increases, which were in place during the previous crop year.

Management discussion and analysis

The CWB is a farmer-directed marketing organization that sells four crops on behalf of western Canadian farmers. These are wheat, durum, designated barley and feed barley. All revenue generated from the sale of these four crops (less marketing expenses) is pooled by crop throughout the year and returned to farmers based on deliveries. The following discussion reviews the CWB's supply situation, the global marketing environment, marketing strategy and results for the 2003-04 crop year. The CWB's indirect income and expenses, Producer Payment Options (PPOs), credit sales, funding and commodity and financial risk management activities are also reviewed. The financial statements and accompanying notes follow.

General crop conditions

In general, the 2003-04 crop year was average in terms of grain produced and above average in terms of quality. Following two consecutive years of widespread drought throughout the Prairies, the 2003-04 crop year was marked by improved soil moisture levels. A combination of rains in the fall of 2002 and normal to above-normal winter precipitation greatly improved western Canadian planting conditions. However, the situation worsened over the course of the growing season, as the southern Prairies received less than 50 per cent of normal precipitation in July and August and the northern areas received less than 75 per cent of normal precipitation. Timely rains in northern Alberta and northwestern Saskatchewan over the summer months helped maintain crop potential. Warm, dry weather during the summer months promoted grasshopper development and caused significant damage to the crop throughout the Prairie region. The dry conditions did have some positive effects: plant diseases were kept in check, with leaf and head diseases reported at the lowest levels in a decade.

Dry harvest weather meant that over 80 per cent of the crop was harvested by the first week in September and resulted in one of the highest-quality crops ever produced. About 90 per cent of the spring wheat and durum graded No. 1 and No. 2.

High protein content in malting barley kept selection rates at about 30 per cent, in line with the long-term average. Western Canada's cereal and oilseed production rebounded to average levels in 2003, despite the extremely dry growing conditions experienced in some parts of the Prairies over the summer months. Total non-durum wheat production for Western Canada jumped from 10.7 million tonnes in 2002-03 to 16.8 million tonnes in 2003-04. Spring wheat production rose from 10.3 million tonnes to 16.1 million tonnes; durum production increased from 3.9 million tonnes in 2002-03 to 4.3 million tonnes in 2003-04 and barley production nearly doubled from 6.4 million tonnes in 2002-03 to 11.4 million tonnes in 2003-04.

The CWB set an export shipping target of more than 16 million tonnes of western Canadian wheat, durum and barley in 2003-04 – levels almost double that of the previous year, reflecting production recovery from the drought. Final calculations show that a total of 15.9 million tonnes (excluding products) were shipped to over 70 different countries. With 18.4 million tonnes of receipts, total sales revenue from both export and domestic markets climbed to $4.1 billion, up from $3.3 billion a year ago.

The wheat pool

	2003-04	2002-03
Receipts (tonnes)	12 375 988	8 696 221
Revenue (per tonne)	**$ 226.91**	$ 238.79
Direct costs	**21.16**	24.02
Net revenue from operations	**205.75**	214.77
Other income	**7.89**	11.26
Net interest earnings	**3.22**	4.54
Administrative expenses	**(3.67)**	(4.03)
Grain industry organizations	**(0.10)**	(0.13)
Earnings for distribution	**$ 213.09**	$ 226.41

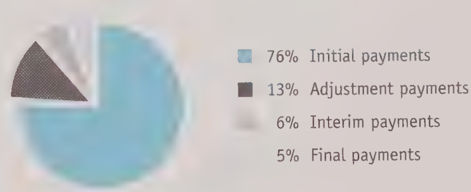
THE MARKET ENVIRONMENT

The combined effects of global wheat production falling to its lowest level since 1995-96 and the re-emergence of China as a major importer helped world wheat prices rebound from low levels seen near the end of the 2002-03 crop year. Although U.S. wheat supplies began to increase from the tight levels experienced in 2002-03, global stocks continued to shrink. Skyrocketing corn and soybean prices, along with concern over the quality of the new U.S. hard red winter wheat crop and the potential for reduced North American spring wheat seeded acreage helped U.S. wheat prices reach their peak in the spring of 2004. Prices in the medium- and lower-quality wheat segments were supported by excessive winterkill and drought throughout Europe and the Former Soviet Union (FSU), which caused wheat production in this exporting region to fall from a record 233 million tonnes in 2002-03, to a 20-year low of 177 million tonnes. After devastating droughts in 2002-03, production in North America returned to a more average level, while Australia produced a record crop of 25 million tonnes. Larger spring wheat yields in North America and excellent harvest conditions meant a substantial increase in supplies of high-grade, high-protein wheat, compared to the previous year. Prices fell sharply through the summer of 2004, as it became apparent that the world was about to produce record wheat and corn crops.

Market volatility was a notable feature in 2003-04, with Minneapolis nearby wheat prices ranging from a low of $3.44US per bushel to a high of $4.52US per bushel. Another notable feature was the record ocean freight rate environment. Ocean freight rates that were double, even triple normal levels were common throughout the year as an economic boom in China and increased Asian demand for coal caused a massive surge in demand for raw bulk materials and limited the availability of bulk freight capacity. This had a negative impact on pool returns, as Canada faced an even larger freight disadvantage to most destinations.

EARNINGS DISTRIBUTED TO FARMERS

Wheat 2003-04



THE STRATEGY

In order to manage market volatility, the CWB sells grain throughout the year. Not only does this approach assist in the management of price risk and uncertainty, but it also serves to match logistical constraints with producer delivery requirements and customer buying patterns. The CWB uses an integrated sales and risk management approach for the wheat pool, which effectively facilitates staged marketing from the time the crop is seeded, through harvest of the following year. It also creates the flexibility to take advantage of periodic market opportunities that arise.

As with every year, the customer mix was optimized to maximize revenue, subject to logistical, market and crop conditions. This year, efforts were focused on maximizing sales to high-grade buyers who were willing to pay for protein, to take advantage of the premium-quality crop produced. The 2002-03 year ended with extremely tight carry in stocks, but the early harvest allowed new crop shipments to reach customers a bit earlier than usual. Unfortunately, the application of import tariffs on Canada Western Red Spring (CWRS) wheat going to the U.S. effectively closed this lucrative quality-conscious market, forcing a larger portion of western Canadian supplies into offshore markets.

THE DELIVERIES

Delivery opportunities for wheat varied depending on the grade and class, but were generally evenly distributed throughout the crop year. All of the wheat committed to the Series A, B and C contracts was accepted. By mid-December, 50 per cent of the Series A contracts for CWRS had been called. Strong early movement was seen on Canada Western Red Winter (CWRW) wheat, with 100 per cent of Series A contracts being called by early September. Early movement for Series A contracts was also seen on Canada Prairie Spring Red (CPSR) wheat, Canada Prairie Spring White (CPSW) wheat and Canada Western Extra Strong (CWES) wheat. As usual, movement of Canada Western Soft White Spring (CWSWS) wheat was evenly spread throughout the year, reflecting domestic demand. Deliveries of all non-durum wheat to the pool totaled 12.4 million tonnes, up from 8.7 million tonnes the previous year.

THE RESULTS

A total of 10.6 million tonnes was sold to offshore customers in the 2003-04 crop year, up from almost 6.4 million tonnes in 2002-03. The domestic market was once again the largest volume customer, buying 1.7 million tonnes of non-durum wheat in 2003-04. This was down from 2.2 million tonnes in 2002-03, primarily due to improved extraction rates and to a lesser extent, the impact of low-carbohydrate diets. The re-emergence of China as a major importer of high-grade, high-protein wheat fit extremely well into the crop mix and helped offset the loss of the high-grade, high-protein U.S. market. In 2003-04, China bought 1.7 million tonnes, up from the previous year's total of 163 000 tonnes. Japan's purchases were also up in 2003-04, reaching 1.013 million tonnes, compared to 997 000 tonnes the previous year. Just 270 000 tonnes of wheat were sold to the Philippines in 2002-03, due to the reduced supplies of high-grade, high-protein wheat that year. However, efforts to increase market penetration in this region were successful in 2003-04, with 705 000 tonnes sold in 2003-04. Sales to Mexico, the CWB's fifth largest customer, totaled 682 000 tonnes, up from 607 000 tonnes the previous year.

With ocean freight rising to record levels, Cost & Freight (C&F) sales nearly tripled from 113 000 tonnes to 325 000 tonnes and captured more value on behalf of farmers. The direct rail program was expanded for Mexico (647 000 tonnes moved, compared to 319 000 in 2002-03) and Caribbean destinations (249 000 tonnes moved, compared to 54 000 tonnes in 2002-03).

LARGEST VOLUME WHEAT CUSTOMERS

(2003-04 and 2002-03 sales in 000 tonnes)*

* Comparable graphs in previous annual reports represented crop year shipments, not pool year sales; sales for product exports captured in final destination country.

The wheat pool returned just over $2.8 billion in gross revenues on 12.4 million tonnes of receipts, or an average gross revenue of $226.91 per tonne, down from the average of $238.79 per tonne the previous year. Although the quality profile of the pool was much higher than the previous year, spring wheat prices were also a bit lower than those in 2002-03, due to abundant supplies in both the U.S. and Canada. The final pool returns for No. 1 CWRS with 13.5-per-cent protein (net of all costs) yielded $211 per tonne in store Vancouver/St. Lawrence, compared to $250 per tonne a year ago. The protein spread between 11.5 per cent and 13.5 per cent was $5 per tonne, compared to $9 per tonne the previous year, due to the relatively abundant world supplies of high-grade, high-protein wheat. Final pool returns for No. 3 CWRS and CPSR held up relatively better, falling about $25 per tonne compared to a year ago, to $190 per tonne and $186 per tonne, respectively. This was a result of the limited competition from Europe and the Commonwealth of Independent States (CIS) in the medium-quality segment of the world wheat market.

DIRECT COSTS

Direct costs decreased $2.86 per tonne to $21.16, primarily due to lower inventory storage and financing, the income effect of inventory adjustments and other direct expenses offset slightly by higher terminal handling costs. More specifically:

- Increased efficiencies in the system resulted in a decrease in total average inventory levels during the year, offset by a slightly higher average per-tonne storage rate. Financing costs decreased due to a combination of decreased inventory levels, initial payment value and interest rates.
- Inventory adjustments resulted in an overall net revenue to the pool as a result of the impact of previous year's activities and current-year projections of blending activity.
- Other direct expenses have decreased due to sales contract cancellation costs incurred during 2002-03, not recurring in 2003-04.
- Terminal handling increased as a result of an overall larger export program.

OTHER INCOME

Other income decreased $3.37 per tonne to $7.89, due primarily to the effect of an overall increase in pool size.

DISTRIBUTION OF INCOME

The average sales proceeds available for distribution decreased six per cent or $13.32 per tonne to $213.09. Of the amounts returned to pool participants, 89 per cent was distributed by May 19, 2004 in the form of initial and adjustment payments. A further six per cent, or $11.80 per tonne, was distributed as an interim payment on October 5, 2004.

Producer Payment Options, like the Fixed Price (FPC) and Basis Payment (BPC) Contracts, are designed to operate independently of the pool and therefore do not impact the pool's net results.

Just under $32.4 million of sales returns were paid from the wheat pool to the Producer Payment Options program, representing the return on the specific grades and classes of wheat delivered under the FPC and BPC. The payment options program in turn paid farmers at the respective contracted price under the program.

The durum pool

	2003-04	2002-03
Receipts (tonnes)	3 079 664	3 803 596
Revenue (per tonne)	**$ 250.46**	$ 278.89
Direct costs	**25.69**	26.16
Net Revenue from operations	**224.77**	252.73
Other income	**4.99**	1.89
Net interest earnings	**2.79**	2.24
Administrative expenses	**(3.67)**	(4.03)
Grain industry organizations	**(0.10)**	(0.13)
Earnings for distribution	**$ 228.78**	$ 252.70

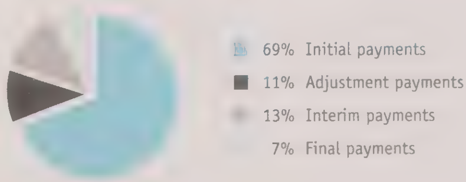
THE MARKETING ENVIRONMENT

With global durum production increasing by three million tonnes to a record 37.6 million tonnes in 2003-04, global durum prices were weaker than the previous year. Bumper crops in the key importing region of North Africa caused imports into this region to fall from their typical levels of 3.1 million tonnes to just 2.2 million tonnes, largely due to a reduction in Algerian demand. Fortunately, import demand picked up elsewhere, with total durum trade only falling 0.2 million tonnes to 6.4 million tonnes. Drought in 2003 reduced the European Union's (EU) durum supplies and boosted import demand. CWB durum sales into this region were aided by new-crop quality concerns in Italy, Greece and Spain early in the summer of 2004, which created another demand wave and ultimately helped triple the EU import program compared to 2002-03. Durum trade resumed with the U.S. after a hard-fought victory by Canada in the U.S. Countervailing and Antidumping investigations was confirmed in the fall of 2003. Venezuelan durum demand also recovered, as buyers looked to replenish low stocks after the government relaxed their limits on access to foreign currency. At the same time, price subsidization of pasta also boosted consumption.

The quality profile of the North American crop was exceptional; the best in over a decade. This kept pressure on the high-grade, high-protein prices relative to lower grades, which were comparatively scarce. Reduced competition from the EU, Syria and Turkey minimized the effects of record high ocean freight rates on the 2003-04 durum market.

EARNINGS DISTRIBUTED TO FARMERS

Durum 2003-04



THE STRATEGY

As with spring wheat, one of the biggest challenges faced by the CWB was matching the customer mix to the available supply of high-grade, high-protein durum. There were some lower-grade carry in stocks from the previous year, which helped round out the grade profile. However, with approximately 90 per cent of the durum reaching the top two grades, efforts were focused on increasing market penetration in medium- and high-quality demand segments in markets, such as the EU, the U.S., Morocco, Algeria and Venezuela.

THE DELIVERIES

Due to prospects for weaker global import demand and much larger supplies of high-grade, high-protein durum, the CWB announced in November 2003 that only 70 per cent of the durum sign-up on the Series A contract would be accepted. Nothing was accepted on the Series B contract. Stronger-than-expected demand resulted in a 25-per-cent acceptance level on the Series C contract. In total, the CWB accepted 78 per cent of the durum offered on contracts by farmers. Delivery opportunities were evenly distributed throughout the crop year. Total deliveries to the pool were three million tonnes, down from 3.8 million tonnes in 2002-03.

THE RESULTS

On a July-to-June shipping basis, the CWB's market share of the world bulk durum wheat trade expanded to about 52 per cent in 2003-04, compared to 45 per cent a year earlier. This was largely due to the CWB's success in boosting market penetration in Europe and Morocco, which ultimately helped to offset the sharp reduction in Algerian import demand. About two-thirds of the Latin American and EU demand was captured, up from 57 per cent and 31 per cent, respectively, the previous year.

Over 2.87 million tonnes was sold to offshore markets this year. Sales to Italy totaled 704 000 tonnes, up from 349 000 tonnes in 2002-03. Sales to Morocco totaled 455 000 tonnes, up from 330 000 tonnes. Sales to Algeria, Venezuela and Canada rounded out the top five customers, taking 359 000 tonnes, 324 000 tonnes and 260 000 tonnes, respectively.

Drought conditions in Mexico allowed for sales opportunities in a country that is typically an export competitor. Regaining access to the U.S. durum market played an important part in marketing this year's high-grade, high-protein crop. However, the U.S. International Trade Commission decision on potential tariffs on Canadian durum moving into the U.S. was not released until October 2003, well into the marketing year, which prevented the CWB from accessing this market earlier.

The durum pool returned just over $771 million in gross revenues on three million tonnes of receipts, or an average of $250.46 per tonne, down from the average of $278.89 per tonne the previous year. Final pool returns for No. 1 Canada Western Amber Durum (CWAD) wheat with 13.0 per cent protein fell by almost $50 per tonne compared to a year ago, to $228 per tonne in store Vancouver/St. Lawrence. The protein spread between 11.5 per cent and 13.0 per cent was about $4 per tonne, compared to almost $7 per tonne a year ago. The final pool return for No. 3 CWAD held up relatively better, only falling about $30 per tonne to $209 per tonne, due to relatively tight supplies.

LARGEST VOLUME DURUM CUSTOMERS

(2003-04 and 2002-03 sales in 000 tonnes)*

* Comparable graphs in previous annual reports represented crop year shipments, not pool year sales; sales for product exports captured in final destination country.

DIRECT COSTS

Direct costs decreased by $0.47 per tonne to $25.69 due primarily to lower freight, offset by a decrease in the income effect of inventory adjustment demotions. More specifically:

- Terminal handling decreased with the smaller pool size.
- During the year, a net demotion of durum stocks was reported. With the 2004 harvest complete and some high-quality durum available, the projection is for promotions to occur and offset the demotions. The 2002-03 crop had a poorer grade pattern than the 2003-04 crop and, consequently, reflected a significant grade demotion.

OTHER INCOME

An increase in sales to the U.S. and Mexico resulted in an increase in rail-freight recovery, one of the main components of other income. Rail-freight recovery is the recovery from CWB agents of the freight deducted from cash tickets where the grain was shipped to destinations other than terminal locations. Typically, a significant volume of durum is sold to or through the U.S. and, therefore, is not railed to terminal position, resulting in substantial recoveries.

DISTRIBUTION OF EARNINGS

The average sales proceeds available for distribution decreased nine per cent or $23.92 per tonne to $228.78. Of the amounts returned to pool participants, 80 per cent was distributed by May 19, 2004 in the form of initial and adjustment payments. A further 13 per cent, or $30.29 per tonne, was distributed as an interim payment on October 5, 2004.

For producer receipts delivered under the FPC program, $108,100 was paid from the pool to the program, representing the final pool return on the specific grades delivered to the durum pool under the FPC program. The payment options program in turn paid farmers at the respective contracted price under the program.

The designated barley pool

	2003-04	2002-03
Receipts (tonnes)	2 138 365	891 433
Revenue (per tonne)	$ 191.24	$ 219.70
Direct costs	9.48	10.82
Net revenue from operations	181.76	208.88
Other income	22.25	30.66
Net interest earnings	.84	1.52
Administrative expenses	(3.67)	(4.03)
Grain industry organizations	(0.13)	(0.25)
Earnings for distribution	$ 201.05	$ 236.78

THE MARKETING ENVIRONMENT

A record Australian barley crop, combined with a sharp increase in ocean freight rates and weak U.S. and Chinese import demand, kept pressure on North American malting barley prices for most of the year. Although the EU also produced significant supplies of malting barley in 2003-04, its strong domestic feed-grain market and larger Eastern European import demand reduced the competitive pressures in Asia and Latin America. In fact, the impact of the EU's feed grain deficit spilled onto the world markets and resulted in a very narrow spread between feed barley and malting barley.

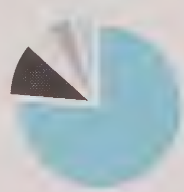
After drought and poor harvest weather sharply lowered Canada's export surplus in 2002-03, a recovery in yields and excellent harvest conditions boosted the production of malting barley in Western Canada. The U.S. market – particularly six-row demand – was fairly quiet in 2003-04, with a much larger and better quality domestic crop. China's import program got off to an extremely slow start due to a larger crop, increased use of adjunct and large carry-in supplies. However, China's import pace did eventually return to normal in the latter half of the year, resulting in imports of 1.5 million tonnes compared to two million tonnes the previous year.

THE STRATEGY

With considerable uncertainty in the 2003-04 Chinese import program, especially at the start of the year, efforts were focused on increasing penetration in other markets, especially those close to Canadian shores, due to the high ocean freight rate environment. Although the CWB attempts to frontload the malting barley export program to take advantage of the seasonal demand window prior to the arrival of Australian new crop supplies, the slow start to the Chinese program led to a later sales program than would normally be the case. With widespread market acceptance for AC Metcalfe and Kendall, market development efforts shifted to increase acceptance of CDC Copeland, particularly in China. As in all pools, the CWB's objective was to minimize the impact of record-high ocean freight in order to maximize returns to growers.

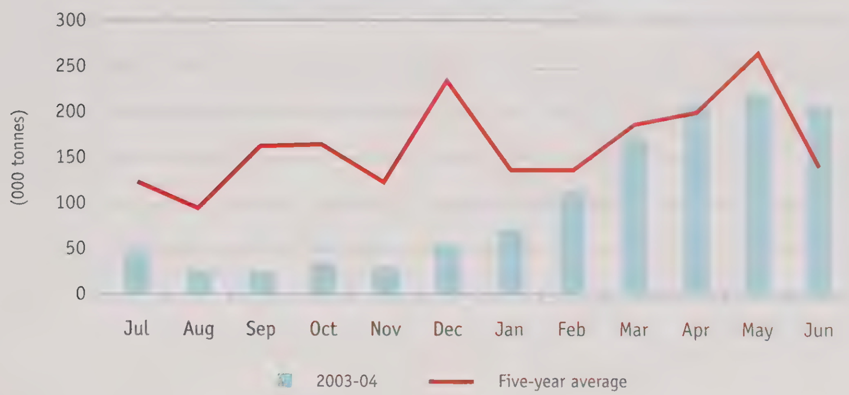
EARNINGS DISTRIBUTED TO FARMERS

Designated barley 2003-04



76% Initial payments
11% Adjustment payments
3% Interim payments
6% Final payments
4% Producer contract storage payment

CHINA'S MONTHLY MALTING BARLEY IMPORTS



THE DELIVERIES

Two-row delivery opportunities were relatively evenly spread through the year as the slow start to the Chinese import program was a dominant feature with respect to overall malting barley movement. Six-row delivery opportunities were somewhat limited due to lower than normal U.S. import requirements. The total pool receipts this year were 2.14 million tonnes, up from just over 891 000 tonnes the previous year.

THE RESULTS

A total of 1.06 million tonnes were sold to Canadian domestic maltsters, compared to 728 000 tonnes the previous year. The largest consumer of Canadian malting barley (bulk grain and malt) was the United States, which purchased 511 000 tonnes, compared to 268 000 tonnes the previous year. China was the second-largest customer, purchasing 427 000 tonnes in 2003-04, up from 43 000 tonnes in the 2002-03 pool.

Canadian maltsters purchased 369 000 tonnes of bulk malting barley for use in the domestic market, compared to 370 000 tonnes the previous year. Malt sales to Japan recovered to a more normal level due to increased availability compared to 2002-03. Strong market development efforts in previous years and the reduced competition from the EU allowed the CWB to increase market penetration in Latin America and South Africa – in fact, Canadian malting barley is now the preferred choice in these areas.

LARGEST VOLUME DESIGNATED BARLEY CUS[illegible]

(2003-04 and 2002-03 sales in 000 tonnes)*

* Comparable graphs in previous annual reports represented crop year shipments, not pool year sales; sales for product exports captured in final destination country.

The CWB dramatically increased the volume of container shipments of malting barley in 2003-04. Container freight rates did not increase to the same extent as bulk ocean freight. In total, 110 000 tonnes of designated barley was shipped via container in 2003-04. Of this, the CWB moved 44 000 tonnes directly, with the rest being shipped through accredited exporters. Savings over bulk shipment costs ranged from \$5-\$15US per tonne. The container volume in 2002-03 was negligible. The CWB continues to charter its own ocean freight where this would add value. Total cost and freight (C&F) sales in 2003-04 increased to over 154 000 tonnes from 1 600 tonnes in 2002-03 and 144 000 tonnes in 2001-02.

The designated barley pool returned almost \$409 million in revenues on 2.1 million tonnes of receipts, generating an average gross revenue of \$191.24 per tonne, down from the average of \$219.70 per tonne the previous year. Final pool returns for Special Select Two-row barley in store Vancouver/St. Lawrence yielded \$200 per tonne, compared to \$242 per tonne a year ago. Final pool returns for Special Select Six-row barley yielded \$186 per tonne, compared to \$223 a year earlier.

The No. 1 Canadian Western Feed versus Special Select Two-row barley spread narrowed from \$77.48 per tonne in 2002-03 to \$32 per tonne, compared to the three-year average of \$46.57 per tonne.

DIRECT COSTS

Direct costs decreased \$1.34 per tonne to \$9.48, primarily due to reduced grain purchases and other direct expenses, offset by an increase in ocean freight costs. More specifically:

- A significant decrease in other grain purchases compared to 2002-03 where substantial inventory overages were recorded.
- The 2003-04 crop year reflected normal levels of late receipts compared to the 2002-03 crop year, when a large volume of producer receipts was received subsequent to the prior crop year's end date, which were accepted due to contractual commitments.
- Extremely high ocean freight rates, driven by a period of unprecedented ocean freight demand, resulted in overall higher ocean freight costs, as a significant proportion of the pool was exported.

OTHER INCOME

The decrease in the per-tonne value of other income is due primarily to the recovery of the rail freight on cash-ticket deductions for grain that was not shipped through terminal position and the impact of a larger pool size.

DISTRIBUTION OF EARNINGS

The average sales proceeds available for distribution decreased 15 per cent, or \$35.73 per tonne, to \$201.05. Of the amounts returned to pool participants, 87 per cent was distributed by May 19, 2004, in the form of initial and adjustment payments. A further three per cent, or \$6.81 per tonne, was distributed as an interim payment on October 5, 2004. In addition, four per cent, or \$7.47 per tonne, was distributed as producer contract storage payment.

The feed barley pool

	2003-04	2002-03
Receipts (tonnes)	844 024	39 698
Revenue (per tonne)	**$ 174.87**	$ 168.28
Direct costs	**9.75**	16.90
Net revenue from operations	**165.12**	151.38
Other income	**0.61**	6.35
Net interest earnings	**6.98**	137.70
Administrative expenses	**(3.67)**	(4.03)
Grain industry organizations	**(0.10)**	(0.13)
Earnings for distribution	**168.94**	291.27
Transferred to contingency fund	**0.00**	127.89
Earnings distributed to pool participants	**$ 168.94**	$ 163.38

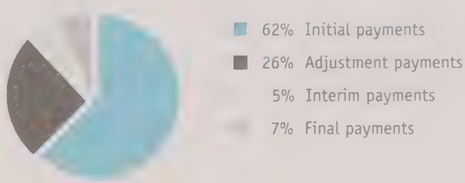
THE MARKETING ENVIRONMENT

Despite a larger global barley crop and weaker import demand, global feed barley prices actually increased during the summer months of 2003, as drought and winterkill drastically reduced exportable surpluses across Europe and Ukraine. Extremely tight carry-in stocks in Australia, Canada and the U.S. were also supportive. In the early months of 2004, world barley prices began to weaken, as the market reacted to the record barley crop in Australia. With the help of strong exports from Russia and stable exports from Kazakhstan, the Commonwealth of Independent States (CIS) still represented about 40 per cent of global feed barley trade, down from 49 per cent the previous year. Import demand fell about 1.6 million tonnes to 12.3 million tonnes, due to large crops in North Africa. Demand from the Middle East remained firm at about 8.7 million tonnes, as slightly lower demand in Saudi Arabia was offset by increased imports into Iran, Turkey and Jordan. With Canadian domestic feed demand and prices under pressure due to the Bovine Spongiform Encephalopathy (BSE) crisis, and the absence of Europe supporting offshore values, Canada was a significant participant in the world feed barley market.

Another factor affecting the global feed barley market was a sharp rise in ocean freight rates. This limited the upside in Pacific Northwest feed barley prices by increasing Canada's freight disadvantage compared to exporters in Europe, CIS and Australia in servicing the core feed demand regions of the Middle East and North Africa. A record U.S. corn crop in 2003-04 was also a negative influence on the world feed grain market. Prospects for a much larger world barley crop in 2004-05 (mostly due to a recovery in Europe and CIS) and larger feed wheat supplies put significant pressure on offshore feed barley prices in the second half of 2004.

EARNINGS DISTRIBUTED TO FARMERS

Feed barley 2003-04



THE STRATEGY

A primary objective of the CWB feed barley strategy was to book export sales early to take advantage of the strong prices seen early in the year when competition was limited. With an early harvest and a favourable domestic versus offshore price spread, the CWB secured supplies from farmers through the Guaranteed Delivery Contracts and was able to sell a large portion of the pool before the full impact of Australia's large new crop was felt.

THE DELIVERIES

Almost 4,500 farmers contracted 883 228 tonnes through the five Guaranteed Delivery Contract (GDC) programs offered in 2003-04. The bulk of the volume from the GDC programs was signed up for delivery in the first half of the year, which allowed the CWB to capture the higher prices experienced early in the marketing season.

By comparison, only 50 000 tonnes were signed up under all three series contracts outside the GDC programs. All of the Series A contract was called by the beginning of December. The total pool receipts were 844 024 tonnes, up from just under 40 000 tonnes a year ago.

THE RESULTS

Securing supplies through the GDC programs allowed the CWB to take advantage of demand arising during the window of limited European, Black Sea and Australian export competition. More than half of the CWB's export program was sold by mid-September at some of the highest Pacific Northwest barley prices seen during the entire year. Out of almost 844 000 tonnes of feed barley sold in 2003-04, Saudi Arabia bought 561 000 tonnes, while Japan purchased 259 000 tonnes. Of the total sold in 2002-03, 33 000 tonnes went to Canada and Japan.

In total, the feed barley pool returned almost $148 million in gross revenues on 844 024 tonnes of receipts, or an average of $174.87 per tonne, up from the average of $168.28 per tonne the previous year, despite a small drop in the simple average Pacific Northwest price. Final pool returns for No. 1 Canada Western feed barley in store Vancouver/St. Lawrence yielded $169.21 per tonne, compared to $164.11 per tonne a year ago, making 2003-04 the third-highest pool return for feed barley in more than 20 years.

LARGEST VOLUME FEED BARLEY CUSTOMERS

(2003-04 and 2002-03 sales in 000 tonnes)*

*Comparable graphs in previous annual reports represented crop year shipments, not pool year sales.

DIRECT COSTS

The small pool size experienced in 2002-03 caused greater volatility in the per-tonne rate calculated. As such, direct costs show a $7.15 decrease to $9.75, primarily due to reduced terminal handling, inventory storage and country inventory financing. More specifically:

Terminal handling declined as a greater proportion of the total receipts moved through terminal, thereby reducing the per tonne cost.

Efficiencies of the system were captured with larger volumes, resulting in a decline in inventory storage costs and country inventory financing.

OTHER INCOME

The decrease in the per tonne value of other income was primarily attributed to decreased rail-freight recovery. Rail-freight recovery is the recovery from CWB agents of the freight deducted from cash tickets where the grain was shipped to destinations other than terminal locations. The 2003-04 sales program was primarily for export movement, resulting in minimal rail-freight recovery compared to the 2002-03 sales program, which was domestically driven.

DISTRIBUTION OF EARNINGS

The average sales proceeds available for distribution increased three per cent, or $5.56 per tonne, to $168.94. Of the amounts returned to pool participants, 88 per cent was distributed by May 19, 2004 in the form of initial and adjustment payments. A further five per cent, or $8 per tonne, was distributed as an interim payment on October 5, 2004.

Indirect income and expenses

ADMINISTRATIVE EXPENSES

With the goal of providing better service to farmers and reducing administrative costs, the CWB announced a corporate-wide restructuring in early 2004. The announcement was the result of an eight-month-long corporate review, which focused on positioning the CWB as an efficient and economical marketing agency, ready to successfully meet the marketing needs of farmers as it moves into the future. The review, which formally began in April 2003, involved the thorough evaluation of all CWB products, services and processes to determine how well they reflected the CWB's future direction. After determining the CWB's essential operational requirements, adjustments to the organizational structure and staffing requirements were identified, as well as opportunities to improve consistency and efficiency. The impact of the review resulted in one-time costs of approximately $4.3 million, of which $3.5 million relate to human resource costs.

Administrative expenses increased $1.3 million or two per cent from the prior crop year to $68 million. This increase was primarily due to corporate review and post-employment benefit costs relating to human resources ($4.7 million) and depreciation for new capital projects ($1.6 million). Other significant increases included the resumption of normal travel, training, and advertising expenses ($1.1 million), which had previously been limited by management, due to a difficult 2002-03 crop year. Offsetting these increases was a net decrease in professional fees ($5.5 million) of which the main component is lower legal costs due to a reduction in U.S. trade challenge activity.

GRAIN INDUSTRY ORGANIZATIONS

The CWB continued to provide support for organizations that benefit, both directly and indirectly, the western Canadian grain farmer. During 2003-04, the CWB contributed a combined $ 1.8 million to the operations of the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC).

NET INTEREST EARNINGS

Net interest earnings of $56.1 million were due primarily to the net interest earned on amounts owed to the CWB on credit grain sales made under the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). When the CWB sells grain on credit, it must borrow an equal amount to facilitate payments to farmers and conduct ongoing operations.
The CWB is able to borrow at interest rates lower than those extended to the credit customer. As a result, the CWB earns an interest 'spread'.

(000's)	2003-04	2002-03
Interest on credit sales		
Revenue on credit sales receivable	$ 131,520	$ 173,626
Expense on borrowings used to finance credit sales receivables	78,305	116,623
Net interest on credit sales	53,215	57,003
Interest revenue (expense) on pool account balances	410	(4,455)
Other interest		
Revenue	5,321	5,126
Expense	2,821	2,858
Net other interest revenue	2,500	2,268
Total net interest earnings	$ 56,125	$ 54,816

During periods when interest rates are trending downwards or upwards, the spread will widen or narrow because of the differences in term between the receivable and the related borrowing. The spread margin earned during the current year widened compared to 2002-03 because the CWB's borrowing interest rates decreased ahead of the date when the rescheduled lending rates were reset.

Although the spread margin widened, overall interest revenue and expense declined significantly due to lower interest rates, U.S. dollar exchange rates and reduced credit receivable balances, as countries such as Poland and Russia made sizeable repayments during the year.

The interest on the pool account balances has increased as a result of the net equity position in wheat being more favourable in 2003-04 than in 2002-03.

The most significant component of other interest revenue is interest revenue from customers due to delays in the receipt of sales proceeds on non-credit sales. Normal fluctuations will occur in the account as the number of days outstanding on these arrangements will typically range between one and 10. Expenses, primarily from financing costs, such as treasury fees and bank charges, make up the main portion of other interest expense.

Producer Payment Options

Providing farmers choice and flexibility is a priority of the farmer-controlled board of directors. Beginning in 2000-01, the board of directors introduced a number of innovative Producer Payment Options (PPOs) which, in the 2003-04 crop year, were enhanced and extended to a wider range of crops. While the PPOs offer farmers unprecedented opportunities to exercise control over the marketing of their wheat and barley, they are structured so that the viability and the integrity of the CWB pool accounts are maintained. Price pooling, which provides farmers a return that reflects sales made throughout the crop year, is an effective price risk management tool that farmers continue to value and support.

CHANGE FOR METHODOLOGY FOR CALCULATING THE BASIS IMPLEMENTED

Prior to the 2003-04 crop year, the basis component of the Fixed Price and Basis Payment Contracts was calculated as the spread between the fixed price and the relevant futures value on the date the Pool Return Outlook (PRO) was issued each month. In the previous year, farmers voiced their concerns over the volatility in the basis levels offered by the CWB. As a result of these concerns, the CWB is now calculating the basis as the PRO, less forecasted futures, less a discount for risk, time value of money and administration. This change now better reflects the returns from all pool account sales, reduces the volatility of the basis, yet allows the farmer to price his/her grain on one of three U.S. wheat futures markets at any time.

PROGRAMS

Three types of PPOs are available to Prairie farmers through the CWB.

1. The Fixed Price Contract (FPC): Introduced in the 2000-01 crop year, the FPC enables farmers to lock in a price for all or a portion of their wheat, durum or feed barley before the beginning of the crop year (August 1). The wheat FPC is comprised of the December basis plus the relevant futures price. The durum and feed barley FPC is comprised of the PRO less a discount. Program costs are entirely covered by the farmers who use it. In 2000-01, fixed prices on CWRS were offered. For 2001-02 and 2002-03, the FPC was extended to all classes of wheat and to feed barley. As well, an FPC on durum, which was developed and made available to farmers on a trial basis for 2002-03, was offered as a full-scale program in 2003-04. During the 2003-04 crop year, 379 farmers signed an FPC. They delivered 61 148 tonnes of wheat, 470 tonnes of durum, and 42 tonnes of feed barley under the FPC. The maximum value per tonne that could have been locked in under an FPC for the 2003-04 crop year was as follows:

   No.1 CWRS 13.5 per cent protein $221.98;

   No.1 CWAD 13 per cent protein $231.50; and

   No.1 CW Feed barley $135.05.

2. The Basis Payment Contract (BPC): Launched at the same time as the FPC, the BPC enables farmers to lock in the pooled basis and futures at different times during the program. When pricing their grain, farmers get the futures price that they have selected plus the basis that they locked in. Farmers get full payment for their grain when it has been both delivered and priced. They receive no further payments from the pool accounts for these deliveries. The BPC was extended to all classes of wheat (excluding durum) for the 2001-02 crop year. In 2003-04, 336 farmers signed a BPC. A total of 97 593 tonnes of wheat were delivered under the BPC. The maximum value for No.1 CWRS 13.5-per-cent protein that could have been locked in under a BPC for the 2003-04 crop year was $242.67 per tonne.

3. The Early Payment Option (EPO): In 2001-02, the CWB introduced the EPO as a pilot program for producers of CWRW and CWSWS wheat. It had previously only been available on feed barley committed to Guaranteed Delivery Contracts. The EPO was extended to all classes of wheat (excluding durum) for the 2002-03 crop year. In 2003-04, the EPO was expanded to include durum and designated

barley with a 90-per-cent early payment value. The EPO enables farmers to receive 80 per cent (wheat and feed barley) or 90 per cent of the PRO, less a discount for risk, time value of money and administration costs at time of delivery. The 80-per-cent early payment value was added in 2003-04 to provide farmers with more cash flexibility at lower discount costs. Farmers receive the initial payment less the usual freight and elevation charges at that time. The CWB then issues an additional payment to bring the total to 80 or 90 per cent of the locked-in PRO, less the discount. Farmers are eligible for any future adjustment, interim and final payments that increase the price of these deliveries beyond the value that they have locked in. This program therefore not only serves to help farmers meet their cash flow needs but also gives them the opportunity to set a floor price for their grain. A total of 12,954 farmers signed EPO contracts, delivering 2 652 369 tonnes. The maximum value per tonne that could have been locked in under an EPO for the 2003-04 crop year was as follows:

No.1 CWRS 13.5 per cent protein $190.80;

No.1 CWAD 13 per cent protein $197.10;

No.1 CW Feed barley $143.10;

Select CW Two-row $176.40 and

Select CW Six-row $162.90.

FINANCIAL RESULTS

Once grain is delivered to the CWB for selling purposes, there is no segregation between deliveries made as a pool participant and those made under the FPC or BPC programs. Because deliveries made under the FPC and BPC are outside of the pool accounts, all pool returns (initial, interim and final payments) that otherwise would have been paid to farmers are instead paid to the programs. In 2003-04, this amounted to $32,399,226 for wheat, $108,100 for durum and $7,107 for barley. When other revenue, such as liquidated damages, and program expenses (including net hedging activity, interest and administrative expenses) are accounted for, the FPC and BPC programs generated a combined surplus of $284,026.

There was a dramatic rise in the number of tonnes committed to EPO contracts. They rose from 130 696 tonnes in 2002-03 to 2 652 369 tonnes in 2003-04. The EPO discount, charged to farmers for risk, time value of money and program administration costs, was $4,471,168. After accounting for liquidated damages charged for non-delivery, net interest expense, net hedging losses and storage, a surplus of $1,944,851 was generated.

The total PPO program surplus of $2,228,877 was transferred to the contingency fund at year end (see Financial Statement Note 14).

The contingency fund was established to cover deficits or surpluses that may occur as a result of the operation of the PPO programs. The fund ensures that the PPO programs will have no influence on the return that farmers receive from price pooling. While in a surplus position now, the PPO contingency fund is expected to break even over the long term. In any particular year, the fund may operate in either a surplus or deficit position, depending upon the market conditions.

Credit sales

CREDIT SALES DURING THE YEAR

(000's)	2003-04	2002-03
Agri-food Credit Facility	$ 153,155	$ 95,750
Credit assumed by others	149,965	95,750
Total credit sales	303,120	191,500
Total sales	**$ 4,136,168**	$ 3,339,872

CREDIT PROGRAMS

The Government of Canada provides repayment guarantees on CWB credit sales. New credit proposals are recommended by the CWB for review and approval by the government. Acting within credit limits and terms approved by the government, the CWB works with individual customers to structure credit facilities. These credit arrangements are structured according to commercial terms and can be an important factor in foreign markets. During 2003-04, credit sales totaled $303.1 million, representing 7.3 per cent of total sales compared to $191.5 million, or 5.7 per cent, of sales in the previous year. The CWB uses two credit programs:

CREDIT GRAIN SALES PROGRAM (CGSP)

The CGSP was established to facilitate CWB grain sales made on credit to customers who can provide a sovereign guarantee of repayment from their central bank or ministry of finance. During the year ended July 31, 2004, there were no grain sales under the CGSP program (there were also none the previous year).

The balance receivable at July 31, 2004 was $5.2 billion. Of this amount, $4.4 billion represented receivables, where payment of principal and interest has been rescheduled over periods ranging from five to 25 years, under terms agreed to by the Government of Canada. Included in the rescheduled amount was $19.9 million to be paid to the CWB by the government under debt-reduction arrangements, where the government had assumed certain amounts that otherwise would have been paid by the debtor government.

Overdue amounts in the Canadian equivalent of $772 million are due from Iraq as of July 31, 2004. International resolution of Iraq's payment obligation is expected over the next year. Since the Government of Canada guarantees repayment of 100 per cent of the principal and interest of the CGSP receivables, the CWB makes no allowance for credit losses (see Financial statement note 3).

AGRI-FOOD CREDIT FACILITY (ACF)

The ACF was established to facilitate CWB grain sales made on credit, directly or through accredited exporters, to commercial (non-government) customers around the world. The Government of Canada, together with the CWB, evaluates each transaction. During the year ended July 31, 2004, $153.2 million of grain was sold under the ACF program, compared to $95.7 million the previous year.

The balance receivable at July 31, 2004 from sales made under this program was $72.8 million. The Government of Canada guarantees a declining percentage of the receivables under this program based on the repayment period, with the CWB assuming the residual risk not guaranteed. The portion of credit risk assumed by the CWB under this program at July 31, 2004 was $1.5 million. This is considered collectable, therefore there was no allowance made for credit losses (see Financial statement note 3).

CREDIT ASSUMED BY OTHERS

The CWB may partner with other parties in providing credit to CWB customers. In these cases, the CWB receives payment for the other party's portion of the credit transaction. The other party then assumes the risk of non-payment by the customer on their portion of the credit extended. During the year ended July 31, 2004, credit provided by other parties under these arrangements totalled $150 million, compared to $95.7 million the previous year.

Funding

The CWB is committed to minimizing borrowing costs and maintaining access to money through exploring new borrowing opportunities, as well as expanding and diversifying its investor base.

Under *The Canadian Wheat Board Act*, and with the approval of the federal Minister of Finance, the CWB is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness.

All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the Minister of Finance, resulting in the top long-term and short-term credit ratings from Moody's Investor Service (AAA/P-1), Standard and Poor's Ratings Group (AAA/A-1+) and Dominion Bond Rating Service (AAA and AA (High)/R-1(high)).

The CWB borrows money to finance grain inventories, accounts receivable from credit sales, administrative and operating expenses and to administer the Government of Canada's advance payment programs. The CWB borrows in a variety of currencies, but mitigates currency risk by converting borrowings into either Canadian or U.S. dollars to match the assets being financed.

The CWB manages multiple debt portfolios ranging between $5 and $6 billion Cdn outstanding. These include:

- Domestic commercial paper program (the 'Wheat Board Note' program);
- U.S. commercial paper program;
- Euro commercial paper program;
- Euro medium-term note program; and
- Domestic medium-term notes.

Although the notes issued under the Euro medium-term note program have an original term to maturity of up to 15 years and are therefore considered long-term debt for reporting purposes, many of these notes are redeemable by the CWB before maturity due to embedded call features.

Financial risk management

The CWB seeks to minimize risks related to the financial operations of the Corporation. The CWB actively manages exposures to financial risks and ensures adherence to approved corporate policies and risk-management guidelines.

MARKET RISK

Market risk is exposure to movements in the level or volatility of market prices that may adversely affect the CWB's financial condition. The market risks the CWB is exposed to are commodity, foreign exchange and interest rate risk.

Commodity price risk is exposure to reduced revenue for the CWB due to adverse change in commodity prices. The CWB uses exchange-traded futures and option contracts to mitigate commodity price risk inherent to its core business.

The CWB's commodity risk management program involves an integrated approach that combines sales activity with exchange-traded derivatives to manage risk of an adverse movement in the price of grain between the time the crop is produced and the time the crop is ultimately sold to customers. Exchange-traded derivatives are used to complement the CWB's selling activity to provide flexible pricing alternatives to customers, such as basis contracts, and to engage in limited discretionary pricing activity when necessary. The CWB also manages the commodity price risk related to the various Producer Payment Options offered to Prairie farmers that provide pricing choices and cash flow alternatives.

Foreign exchange risk is the exposure to changes in foreign exchange rates that may adversely affect Canadian dollar returns to the CWB. Sales made by the CWB are priced either directly or indirectly in U.S. dollars, resulting in exposure to foreign exchange risk.

To manage foreign exchange risk, the CWB hedges foreign currency revenue values using derivative contracts to protect the expected Canadian dollar proceeds on sales contracts. In addition, the CWB manages foreign exchange risk as it relates to various payment options offered to Prairie farmers.

Interest rate risk is the exposure to changes in market interest rates that may adversely affect the CWB's net interest-earnings. The CWB's interest-rate risk arises from the mismatch in term and interest rate re-pricing dates on the CWB's interest-earning assets and interest-paying liabilities. The spread between the interest-earning assets and interest-paying liabilities represents net interest-earnings, which are paid to farmers annually.

CREDIT RISK

Credit risk is the risk of potential loss should a counterparty fail to meet its contractual obligations. The CWB is exposed to credit risk on non-guaranteed credit sales accounts receivable, as well as credit risk on investments and over-the-counter derivative transactions used to manage the CWB's market risks.

ACCOUNTS RECEIVABLE FROM CREDIT SALES

The CWB sells grain under two government-guaranteed export credit programs: the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see the 'Credit Grain Sales Program' section on page 64 and Financial Statement Note 3.

INVESTMENTS

The CWB uses short-term investments for the purpose of cash management, adhering to requirements of *The Canadian Wheat Board Act*, the CWB's annual borrowing authority granted by the Minister of Finance and applicable government guidelines. The CWB manages investment-related credit risk by transacting only with highly rated counterparties.

DERIVATIVE TRANSACTIONS

The CWB enters into master agreements with all counterparties to minimize credit, legal and settlement risk. The CWB transacts only with highly-rated counterparties who meet the requirements of the CWB's financial risk-management policies. These policies meet or exceed the Minister of Finance's credit policy guidelines.

The CWB's commodity futures and option contracts involve minimal credit risk, as the contracts are exchange-traded. The CWB manages its credit risk on futures and option contracts by dealing through exchanges which require daily mark-to-market and settlement.

LIQUIDITY RISK

Liquidity risk is the risk of being unable to meet corporate obligations. In the normal course of operations, the CWB's diversified funding programs provide sufficient liquidity to meet daily cash requirements. The CWB may hold highly-rated short-term investments to ensure that sufficient funds are available to meet debt obligations. Additionally, the CWB maintains lines of credit with financial institutions to provide supplementary access to funds.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from a breakdown in administrative procedures and controls or any aspect of operating procedures. The CWB's operational risk-management philosophy encourages an environment of effective operational risk discipline. Operational risk-management activities include segregation of duties, cross-training and professional development, disaster recovery planning, use of an integrated financial system, internal and external audits and an independent risk-control and reporting function.

Outlook

The 2004 growing season was one of the coldest on record. By the end of June, with delayed planting and cool weather, crops in the east were as much as three weeks behind normal, while crops in the west were about one week behind. Temperatures improved in July but fell below average again in August and into September, delaying maturity. The cool weather, combined with adequate moisture, reduced plant stress and lengthened the growing period, resulting in wheat, durum and barley yields that were all above the five-year average. This lack of plant stress and higher yields also contributed to protein levels that were significantly below average. The quality of the wheat and barley crops was hurt by the cool, wet conditions experienced in August and September that delayed harvest and resulted in downgrading due to mildew, sprouting and bleaching. Freezing temperatures during the third week in August also caused significant damage to immature crops in parts of Saskatchewan and Manitoba.

Production in other countries around the world also rose this year with big yields, particularly in Europe and the Commonwealth of Independent States (CIS). In fact, the 2004 growing season produced the largest world wheat, durum, corn and soybean crops in recorded history. The world barley crop was also well above average levels.

As a result, the global wheat market is set up to be very competitive in the medium- and lower-quality categories, but extremely tight supplies of high-grade, high-protein spring wheat will force the industry to ration demand in this segment of the market. The production recovery in Europe and the CIS has boosted competition compared to 2003-04, but tight global stocks and the re-emergence of China as one of the largest wheat importers in the world has provided support.

The durum market in 2004-05 is characterized by bumper crops in both the EU and North Africa – two key importing regions. This is the second bumper crop in a row for North Africa. However, poor harvest conditions in Italy, Spain, Greece, Algeria, Tunisia, Canada and the U.S. are expected to provide significant support for high-grade durum in this otherwise very competitive environment.

The global feed barley market is also very competitive this year. Although Australia has a smaller barley crop, large supplies of barley, corn and feed wheat in other exporting countries will keep pressure on the global feed complex. With a much larger crop, the EU has resumed export subsidies on feed barley exports in order to be competitive with exports from the Black Sea. Global import demand is expected to be marginally weaker due to the large crops in North Africa and the Middle East.

At the start of the crop year, global malting barley prices were under pressure due to large Australian carry-in supplies. The EU has a much larger barley crop. However, with both Australia and Canada facing lower new-crop exportable supplies and with Chinese import demand returning to normal, the outlook for malting barley prices is positive.

Other factors will also affect the markets and prices for western Canadian grain. They are:

- The continual strengthening of the Canadian dollar. At the beginning of November 2004, the foreign-exchange rate for the Canadian dollar was approximately nine-per-cent stronger than it was at the beginning of November 2003.
- Ocean freight rates are expected to stay high, driven largely by China's voracious demand for raw materials to feed its growing economy. These higher rates have increased Canada's freight disadvantage into most markets.
- The effects of the single case of BSE discovered in May 2003. Repercussions continue to be felt in the domestic feed grain market, especially in a year where there is a larger feed grain surplus on the Prairies due to untimely frosts and rains. The imposition of tariffs and ongoing investigation due to a U.S. Countervailing and Antidumping investigation against Canadian live hogs going to the U.S. adds to the uncertainty of the domestic feeding industry.

- The U.S. continues its policy of trade harassment toward the farmers of Western Canada. Tariffs on hard red spring wheat imposed by the U.S. Department of Commerce in October 2003 remain in place. The CWB, along with the Government of Canada, Alberta and Saskatchewan, have appealed the countervailing determination to a North American Free Trade (NAFTA) panel. As well, the CWB has appealed the U.S. International Trade Commission's injury ruling on hard red spring wheat to a separate NAFTA panel. Appeal decisions for both cases are expected in the first half of 2005.

  On August 1, 2004, World Trade Organization (WTO) members reached agreement on a framework that will guide future multilateral trade negotiations in the Doha round. This agreement has direct implications for State Trading Enterprises (STEs) such as the CWB. An eventual WTO agreement based on this framework will result in the elimination of the CWB's borrowing and payment guarantees. The framework also states that the "future use of monopoly powers" will be negotiated. The framework will also have implications for the use of agriculture support policies, such as export subsidies (which will be eliminated), export credit, food aid, domestic subsidies and for the way and extent to which countries provide access to domestic markets. The implications of this framework are more precise in some areas, such as STEs and export subsidies, than in others, such as domestic support and market access.

Providing choice and flexibility is a priority of the farmer-controlled board of directors. There have been a number of enhancements to the Producer Payment Options program in 2004-05. The CWB board of directors is also examining possible new programs and improvements to existing programs to increase flexibility and farmer control over pricing. While the Producer Payment Options offer farmers opportunities to exercise control over pricing their wheat, durum and barley, they are structured so that the viability and the integrity of the CWB pool accounts are maintained.

Forward-looking information

Certain forward-looking information statements contained in this annual report are subject to risk and uncertainty because they rely on assumptions and estimates based on current information. A number of factors could cause actual results to differ from those expressed, including but not limited to: weather; changes in government policy and regulations; world agriculture commodity prices and markets; changes in competitive forces and global political/economic conditions, including grain subsidy actions of the U.S. and EU.

Financial results

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Canadian Wheat Board included in this Annual Report are the responsibility of the Corporation's management and have been reviewed and approved by the board of directors. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and reflect the results for the 2003-04 pool accounts, Producer Payment Options and the financial status of the Corporation at July 31, 2004.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by an internal audit department that conducts periodic reviews of different aspects of the Corporation's operations.

The board of directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of directors exercises this responsibility through the Audit, Finance and Risk Committee of the board of directors, which is composed of directors who are not employees of the Corporation. The Audit, Finance and Risk Committee meets with management, the internal auditors and the external auditors on a regular basis, and the external and internal auditors have full and free access to the Audit, Finance and Risk Committee.

The Corporation's external auditors, Deloitte & Touche LLP, are responsible for auditing the transactions and financial statements of the Corporation and for issuing their report thereon.

Adrian Measner

Adrian Measner
President and Chief Executive Officer

G. Menzie

Gordon P. Menzie
Chief Financial Officer

Winnipeg, Manitoba
November 18, 2004

AUDITORS' REPORT

To the board of directors of the Canadian Wheat Board

We have audited the financial statements of the Canadian Wheat Board which includes the balance sheet as at July 31, 2004 and the statement of pool operations and statement of distribution to producers for the 2003-2004 combined pool accounts, the statements of pool operations and statements of distribution to producers for the 2003-2004 pool accounts for wheat, durum and barley for the period August 1, 2003 to completion of operations on July 31, 2004 and for designated barley for the period August 1, 2003 to completion of operations on August 31, 2004, the statements of producer payment option program operations for wheat, durum and barley for the period August 1, 2003 to July 31, 2004 and for designated barley for the period August 1, 2003 to August 31, 2004, the statement of cash flow for the year ended July 31, 2004, and the statement of administrative expenses for the year ended July 31, 2004. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2004 and the results of its operations and its cash flows for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Winnipeg, Manitoba
November 18, 2004

Balance sheet

AS AT JULY 31 (dollar amounts in 000's)	2004	2003
ASSETS		
Accounts receivable		
Credit programs (Note 3)	$ 5,311,103	$ 5,903,578
Non-credit sales	27,510	4,450
Advance payment programs (Note 4)	318,776	374,824
Prepayment of inventory program	24,880	73,429
Due from Government - funding of wheat pool deficit	-	85,388
Other	61,389	30,500
	5,743,658	**6,472,169**
Inventory of grain (Note 5)	871,269	1,121,941
Deferred and prepaid expenses (Note 6)	10,093	35,306
Capital assets (Note 7)	51,436	53,881
Total assets	**$ 6,676,456**	**$ 7,683,297**
LIABILITIES		
Borrowings (Note 8)	$ 5,482,135	$ 6,431,472
Accounts payable and accrued expenses (Note 9)	148,046	137,872
Liability to agents (Note 10)	542,513	876,815
Liability to producers – Outstanding cheques	15,121	3,746
Liability to producers – Undistributed earnings (Note 11)	463,887	208,595
Provision for producer payment expenses (Note 12)	2,241	2,614
Special account (Note 13)	4,060	4,948
Contingency fund (Note 14)	18,453	17,235
Total liabilities	**$ 6,676,456**	**$ 7,683,297**

Approved by the Board of Directors:

Ken Ritter

Ken Ritter
Chair, Board of Directors

Adrian Measner

Adrian Measner
President and Chief Executive Officer

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
STATEMENT OF POOL OPERATIONS *		
Receipts (tonnes)	18 438 041	13 430 9[illegible]
Revenue	**$ 4,136,168**	**$ 3,339,872**
Direct costs		
Freight	190,437	144,050
Terminal handling	97,770	68,470
Inventory storage	52,654	56,940
Country inventory financing	7,216	13,577
Inventory adjustments (Note 15)	(3,982)	846
Other grain purchases (Note 16)	6,536	11,277
Other direct expenses (Note 17)	19,075	23,544
Total direct costs	**369,706**	**318,704**
Net revenue from operations	**3,766,462**	**3,021,168**
Other income (Note 18)	161,124	132,672
Net interest earnings	56,125	54,816
Administrative expenses (Note 19)	(67,581)	(54,082)
Grain industry organizations	(1,836)	(1,799)
Earnings for distribution	**$ 3,914,294**	**$ 3,152,775**

*Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION		
Earnings distributed to pool participants		
Receipts (tonnes)	18 278 788	13 391 012
Initial payments on delivery	$ 2,892,700	$ 2,789,347
Adjustment payments	509,209	222,473
Interim payment	258,787	151,527
Final payment	204,961	57,050
Producer contract storage payments	15,984	3,568
Rebate on producer cars	139	17
Total Earnings distributed to pool participants	3,881,780	3,223,982
Government funding of pool deficit	-	**(85,388)**
Non-pool Producer Payment Options program		
Receipts (tonnes)	159 211	[illegible]
Sales returns paid to payment programs	32,514	9,104
Transferred to contingency fund		
Undistributed earnings	-	5,077
Total distribution	**$ 3,914,294**	**$ 3,152,775**

Wheat pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004 Total	2004 Per tonne	2003 Total	2003 Per tonne
STATEMENT OF POOL OPERATIONS *				
Receipts (tonnes)	12 375 988		8 696 221	
Revenue	**$ 2,808,294**	**$ 226.91**	**$ 2,076,582**	**$ 238.79**
Direct costs				
Freight	134,766	10.89	86,758	9.98
Terminal handling	77,799	6.28	42,290	4.86
Inventory storage	32,074	2.59	35,707	4.11
Country inventory financing	4,913	0.40	9,460	1.08
Inventory adjustments (Note 15)	(5,056)	(0.41)	10,331	1.19
Other grain purchases (Note 16)	4,329	0.35	7,636	0.88
Other direct expenses (Note 17)	13,239	1.06	16,667	1.92
Total direct costs	**262,064**	**21.16**	**208,849**	**24.02**
Net revenue from operations	**2,546,230**	**205.75**	**1,867,733**	**214.77**
Other income (Note 18)	97,673	7.89	97,883	11.26
Net interest earnings	39,858	3.22	39,458	4.54
Administrative expenses (Note 19)	(45,362)	(3.67)	(35,016)	(4.03)
Grain industry organizations	(1,179)	(0.10)	(1,092)	(0.13)
Earnings for distribution	**$ 2,637,220**	**$ 213.09**	**$ 1,968,966**	**$ 226.41**

*Excludes operation of Producer Payment Options program

	2004 Total	2004 Per tonne	2003 Total	2003 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	12 217 247		8 658 121	
Initial payments on delivery	$ 1,989,659	$ 162.86	$ 1,866,790	$ 215.61
Adjustment payments	347,732	28.46	178,919	20.66
Interim payment	144,204	11.80	-	-
Final payment	123,148	10.08	-	-
Rebate on producer cars	78	0.01	-	-
Total earnings distributed to pool participants	2,604,821	213.21	2,045,709	236.27
Government funding of pool deficit	-	-	(85,388)	(9.86)
Non-pool Producer Payment Options program				
Receipts (tonnes)	158 741		38 100	
Sales returns paid to payment programs	32,399	204.10	8,645	226.89
Total distribution	**$ 2,637,220**	**$ 213.09**	**$ 1,968,966**	**$ 226.41**

Durum pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004		2003	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	3 079 664		3 803 596	
Revenue	**$ 771,330**	**$ 250.46**	**$ 1,060,762**	**$ 278.89**
Direct costs				
Freight	46,311	15.04	57,174	15.03
Terminal handling	13,533	4.39	25,804	6.78
Inventory storage	12,047	3.91	17,101	4.50
Country inventory financing	1,305	0.42	3,128	0.82
Inventory adjustments (Note 15)	(962)	(0.31)	(9,640)	(2.54)
Other grain purchases (Note 16)	2,120	0.69	1,514	0.40
Other direct expenses (Note 17)	4,786	1.55	4,454	1.17
Total direct costs	**79,140**	**25.69**	**99,535**	**26.16**
Net revenue from operations	**692,190**	**224.77**	**961,227**	**252.73**
Other income (Note 18)	15,359	4.99	7,206	1.89
Net interest earnings	8,589	2.79	8,535	2.24
Administrative expenses (Note 19)	(11,288)	(3.67)	(15,316)	(4.03)
Grain industry organizations	(293)	(0.10)	(478)	(0.13)
Earnings for distribution	**$ 704,557**	**$ 228.78**	**$ 961,174**	**$ 252.70**

*Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	3 079 [illegible]94		[illegible]	
Initial payments on delivery	$ 487,124	$ 158.20	$ 747,652	$ 196.66
Adjustment payments	77,437	25.15	35,371	9.30
Interim payment	93,275	30.29	132,318	34.80
Final payment	46,560	15.12	45,357	11.93
Rebate on producer cars	53	0.02	17	-
Total earnings distributed to pool participants	704,449	228.78	960,715	252.69
Non-pool Producer Payment Options program				
Receipts (tonnes)	470		[illegible]	
Sales returns paid to payment programs	108	230.00	459	250.26
Total distribution	**$ 704,557**	**$ 228.78**	**$ 961,174**	**$ 252.70**

Designated barley pool

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2004		2003	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS *				
Receipts (tonnes)	2 138 365		891 433	
Revenue	**$ 408,950**	**$ 191.24**	**$ 195,848**	**$ 219.70**
Direct costs				
Freight	9,504	4.44	111	0.12
Terminal handling	952	0.45	(11)	(0.01)
Inventory storage	6,195	2.90	3,915	4.39
Country inventory financing	900	0.42	971	1.09
Inventory adjustments (Note 15)	2,085	0.97	154	0.17
Other grain purchases (Note 16)	39	0.02	2,123	2.38
Other direct expenses (Note 17)	590	0.28	2,386	2.68
Total direct costs	**20,265**	**9.48**	**9,649**	**10.82**
Net revenue from operations	**388,685**	**181.76**	**186,199**	**208.88**
Other income (Note 18)	47,574	22.25	27,331	30.66
Net interest earnings	1,790	0.84	1,356	1.52
Administrative expenses (Note 19)	(7,838)	(3.67)	(3,590)	(4.03)
Grain industry organizations	(284)	(0.13)	(224)	(0.25)
Earnings for distribution	**$ 429,927**	**$ 201.05**	**$ 211,072**	**$ 236.78**

*Excludes operation of Producer Payment Options program

	2004 Total	2004 Per tonne	2003 Total	2003 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to producers				
Receipts (tonnes)	2 138 365		891 433	
Initial payments on delivery	$ 327,636	$ 153.22	$ 169,016	$ 189.60
Adjustment payments	46,829	21.90	8,146	9.14
Interim payment	14,557	6.81	19,209	21.55
Final payment	24,918	11.65	11,133	12.49
Producer contract storage payments	15,984	7.47	3,568	4.00
Rebate on producer cars	3	-	-	-
Total distribution	**$ 429,927**	**$ 201.05**	**$ 211,072**	**$ 236.78**

Barley pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004		2003	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS *				
Receipts (tonnes)	844 024		39 698	
Revenue	$ 147,595	$ 174.87	$ 6,680	$ 168.28
Direct costs				
Freight	(143)	(0.17)	7	0.17
Terminal handling	5,486	6.49	387	9.75
Inventory storage	2,338	2.77	217	5.46
Country inventory financing	98	0.12	18	0.45
Inventory adjustments (Note 15)	(49)	(0.06)	2	0.06
Other grain purchases (Note 16)	48	0.06	3	0.08
Other direct expenses (Note 17)	460	0.54	37	0.93
Total direct costs	**8,238**	**9.75**	**671**	**16.90**
Net revenue from operations	**139,357**	**165.12**	**6,009**	**151.38**
Other income (Note 18)	517	0.61	252	6.35
Net interest earnings	5,888	6.98	5,467	137.70
Administrative expenses (Note 19)	(3,093)	(3.67)	(160)	(4.03)
Grain industry organizations	(80)	(0.10)	(5)	(0.13)
Earnings for distribution	**$ 142,589**	**$ 168.94**	**$ 11,563**	**$ 291.27**

*Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to producers				
Receipts (tonnes)	843 982		39 69[illegible]	
Initial payments on delivery	$ 88,280	$ 104.60	$ 5,889	$ 148.33
Adjustment payments	37,211	44.09	37	0.94
Interim payment	6,752	8.00	-	-
Final payment	10,334	12.24	560	14.11
Rebate on producer cars	5	0.01	-	-
Total earnings distributed to producers	142,582	168.94	6,486	163.38
Non-pool Producer Payment Options program				
Receipts (tonnes)	42			
Sales returns paid to payment programs	7	169.21	-	-
Transferred to contingency fund				
Undistributed earnings (Note 14)	-	-	5,077	127.89
Total distribution	**$ 142,589**	**$ 168.94**	**$ 11,563**	**$ 291.27**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
WHEAT PROGRAMS		
FIXED PRICE CONTRACT/ BASIS PRICE CONTRACT		
Receipts (tonnes)	158 741	
Revenue		
Sales returns paid to program	$ 32,399	$ 8,645
Liquidated damages	132	326
Net interest	9	90
	32,540	9,061
Expense		
Contracted amounts paid to producers	32,005	8,391
Net hedging activity	2	294
Administrative expense (Note 19)	255	356
	32,262	9,041
Net surplus on program operations	$ 278	$ 20
EARLY PAYMENT OPTION		
Receipts (tonnes)	1 181 213	130 696
Revenue		
Program discount	$ 1,831	$ 852
Net hedging activity	-	1,717
Liquidated damages	204	38
	2,035	2,607
Expense		
Pool returns less than contracted price	-	1,993
Net hedging activity	1,757	-
Net interest	137	43
	1,894	2,036
Net surplus on program operations	$ 141	$ 571
TOTAL WHEAT PROGRAMS (Note 14)	$ 419	$ 591

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
DURUM PROGRAM		
FIXED PRICE CONTRACT		
Receipts (tonnes)	470	1 836
Revenue		
Sales returns paid to program	$ 108	$ 459
Liquidated damages	1	10
	109	469
Expense		
Contracted amounts paid to producers	94	389
Net hedging activity	9	69
Net interest	1	3
Administrative expense (Note 19)	1	18
	105	479
Net surplus (deficit) on program operations	$ 4	$ (10)
EARLY PAYMENT OPTION		
Receipts (tonnes)	199 937	
Revenue		
Program discount	$ 546	$ -
Liquidated damages	47	-
	593	-
Expense		
Net hedging activity	356	-
Net interest	46	-
	402	-
Net surplus on program operations	$ 191	$ -
TOTAL DURUM PROGRAMS (Note 14)	$ 195	$ (10)

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2004	2003
DESIGNATED BARLEY PROGRAM		
EARLY PAYMENT OPTION		
Receipts (tonnes)	555 616	-
Revenue		
Program discount	$ 626	$ -
Liquidated damages	48	-
	674	-
Expense		
Net hedging activity	208	$ -
Net interest	81	-
	289	-
Net surplus on program operations	**$ 385**	**$ -**
TOTAL DESIGNATED BARLEY PROGRAM (Note 14)	**$ 385**	**$ -**

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
BARLEY PROGRAM		
FIXED PRICE CONTRACT		
Receipts (tonnes)	42	
Revenue		
Sales returns paid to program	$ 7	$ -
Net interest	1	-
	8	-
Expense		
Contracted amounts paid to producers	5	-
Net hedging activity	1	-
	6	-
Net surplus on program operations	**$ 2**	**$ -**
EARLY PAYMENT OPTION		
Receipts (tonnes)	715 603	
Revenue		
Program discount	$ 1,468	$ -
Net hedging activity	88	-
Liquidated damages	27	-
Net interest	-	7
	1,583	7
Expense		
Producer contract storage	254	-
Net interest	101	-
	355	-
Net surplus on program operations (Note 14)	**$ 1,228**	**$ 7**
TOTAL BARLEY PROGRAMS (Note 14)	**$ 1,230**	**$ 7**

Statement of cash flow

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
Increases (Decreases) of cash during the year		
Cash flow from operating activities		
Pool earnings for distribution	$ 3,914,293	$ 3,152,776
Producer Payment Options program operations	1,820	263
Interest earned on non-program contingency fund balance	278	148
Add non-cash items		
Depreciation on CWB hopper cars	2,650	2,698
Depreciation on other capital assets	9,388	7,797
Adjustment related to 2002-03 EPO program	(1,289)	-
Cash flow from operating activities before changes in working capital	3,927,140	3,163,682
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	136,035	28,176
Inventory of grain	250,672	(216,298)
Deferred and prepaid expenses	25,214	(16,335)
Accounts payable and accrued expenses	10,174	22,857
Liability to agents	(334,302)	326,800
Liability to producers for outstanding cheques	11,374	(30,898)
Provision for producer payment expenses	(373)	(1,073)
Special account	(888)	749
	4,025,046	3,277,660
Cash flow from financing activities		
Decrease in borrowings	(949,337)	(904,890)
	(949,337)	(904,890)
Cash flow from investing and other activities		
Accounts receivable - credit programs	592,476	1,061,870
Purchase of capital assets	(9,869)	(7,941)
Proceeds from sale of capital assets	277	327
	582,884	1,054,256
Cash distributions		
Prior year undistributed earnings	(208,595)	(402,859)
Current year distributions prior to July 31	(3,417,892)	(3,015,388)
Non-pool producer payment option payments	(32,106)	(8,779)
	(3,658,593)	(3,427,026)
Net increase in cash and cash equivalents	-	-
Net cash position at beginning of year	-	-
Net cash position at end of year	$ -	$ -

Statement of administrative expenses

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
Human resources	$ 40,355	$ 35,692
Office services	3,388	3,720
Professional fees	7,033	12,596
Computer services	3,691	3,568
Facilities	2,150	2,283
Travel	1,823	1,363
Advertising and promotion	1,307	806
Other	726	664
Training	376	228
Depreciation	9,388	7,797
Recoveries	(2,229)	(2,053)
Total administrative expenses (Note 19)	**$ 68,008**	**$ 66,664**

Notes to the financial statements

1. ACT OF INCORPORATION AND MANDATE

The Canadian Wheat Board (the Corporation) was established by *The Canadian Wheat Board Act*, a statute of the Parliament of Canada. On June 11, 1998, Bill C-4, *An Act to Amend The Canadian Wheat Board Act* continued the Corporation as a shared governance corporation, without share capital, effective December 31, 1998.

The Corporation was created for the purpose of marketing, in an orderly manner, in inter-provincial and export trade, grain grown in Western Canada. The Corporation is headed by a board of directors, comprised of ten producer-elected and five government-appointed members. The Corporation is accountable for its affairs to both western Canadian farmers through its elected board members and to Parliament through the Minister Responsible for the Canadian Wheat Board.

The Corporation is exempt from income taxes pursuant to Section 149(1)(d) of the *Income Tax Act*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require the corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingencies. These estimates and assumptions are based on management's best knowledge of current events and actions that the corporation may undertake in the future. Actual results could differ from those estimates.

RESULTS OF OPERATIONS

The financial statements at July 31 include the final operating results for all pool accounts and programs for the crop year ended July 31, where marketing operations have been completed thereafter. In determining the financial results for such pools and programs, the accounts of the Corporation at July 31 include:

Revenue – Revenue from grain sales is recognized in the accounts at the time that shipment is made, at a value defined in the sales contract.

Inventory – Inventory of grain on hand at July 31 is valued at the amount of sales proceeds that is ultimately expected to be received as sale proceeds.

Direct operating expenses and income subsequent to July 31 – A provision is made for direct operating expenses and income occurring subsequent to July 31 relating to the marketing of grain inventories on hand at July 31. The amounts, which primarily relate to inventory storage, inventory financing and grain movement are accrued to the appropriate Operating Statement account and are reflected in the Balance Sheet as net accounts payable.

FOR LOSSES ON ACCOU

Accounts receivable from credit programs – The Government of Canada guarantees the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sales Program and a declining percentage, based on the repayment term of the credit, of all receivables resulting from sales made under the Agri-food Credit Facility. The Corporation assumes the risk not covered by the Government of Canada. For receivables resulting from credit sales made outside of the Credit Grain Sales Program and the Agri-food Credit Facility, the Corporation may enter into arrangements with commercial banks, which will assume the credit risk without recourse.

Accounts receivable from non-credit sales – Shipments are made pursuant to the receipt of appropriate letters of credit issued by commercial banks that guarantee the receipt of funds by the Corporation.

Accounts receivable from advance payment programs – The Government of Canada guarantees the repayment of the principal amount due from producers resulting from cash advances made under the *Agricultural Marketing Programs Act*, the *Spring Credit Advance Program* and the *Unharvested Threshed Grain Advance Program*.

With respect to receivables from credit programs, non-credit sales and advance payment programs, as a result of these guarantees and arrangements, no provision is made with respect to the possibility of debtors defaulting on their obligations. Other receivable accounts are monitored and allowance for losses are provided for where collection is deemed unlikely.

Capital assets are recorded at cost and depreciated on a straight line method over their expected useful life as follows:

Asset class	Term (years)
Computer equipment	1 to 6
Computer systems development	2 to 10
Automobiles	3
Building and office improvements	3
Office furniture and equipment	10
Hopper cars	30
Building	40
Leasehold improvements	Term of lease

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance sheet date. Exchange adjustments arising from the translation of foreign currency denominated assets or liabilities are recognized in the period in which they occur, as a component of revenue. Borrowings in currencies other than the Canadian or United States dollar are hedged by cross-currency interest rate swaps and currency swaps and are converted into Canadian or U.S. dollars at the rates provided therein. The Corporation hedges U.S. dollar assets and liabilities on a portfolio basis primarily by matching U.S. dollar assets to U.S. dollar liabilities.

Sales contracts denominated in foreign currencies are hedged by foreign exchange forward contracts. Forward exchange contracts are translated into Canadian dollars at the rates provided therein. These amounts are recorded in revenue as an adjustment to the underlying sales transactions.

Other income and expenses are translated at the daily exchange rates in effect during the year.

The net foreign exchange gains included in operations for the year ended July 31, 2004 are $2,301,731 (2003 - $7,935,552).

The Corporation uses various types of derivatives, such as swaps, forwards, futures and option contracts, in order to manage its exposure to currency, interest-rate and commodity price risks. These instruments are designated as hedges and are only used for risk-management purposes.
These derivative contracts are initiated within the guidelines of the Corporation's risk-management and hedging policies, which require specific authorization for approval and commitment of contracts. The Corporation formally documents its risk-management objectives and strategies for undertaking the hedging transaction and the relationship between the hedged item and derivative. The Corporation assesses, both at inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Effective August 1, 2003, the Corporation adopted the Canadian Institute of Chartered Accountants Accounting Guideline AcG13 Hedging Relationships. This guideline provides additional documentation and designation requirements for hedge accounting and requires regular, periodic assessments of effectiveness. The guideline does not change the Corporation's method of accounting for derivative instruments in hedging relationships. Hedge accounting is applied when there is a high degree of correlation between changes in fair values or cash flows of derivative contracts and the hedged items.

The Corporation recognizes derivative financial and commodity instruments as a hedge of the underlying exposure. Gains or losses on these contracts are recognized when the related underlying hedged transaction is recognized. Commodity contracts, while an economic hedge, do not qualify for hedge accounting. They are marked to market at the balance sheet date, with the unrealized gains or losses disclosed as a component of Deferred and Prepaid Expenses. When the gains or losses are realized, they are recorded in the same pool account or Producer Payment Options (PPO) program as the related sale or PPO program that is being hedged.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity are recognized in the respective pool account or PPO program in the period in which the underlying hedged transaction is recognized. If the designated hedged item is no longer expected to occur prior to the termination of the related derivative instrument, realized and unrealized gains or losses are recognized in the pool account or PPO program in which the underlying hedged transaction was expected to be recognized.

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated.

Interest rate contracts are used to manage interest rate risk associated with the Corporation's funding and asset/liability management strategies. The amounts to be paid or received under single currency and cross-currency interest rate swap contracts are recognized in the period in which they occur, as a component of net interest earnings.

Foreign exchange contracts are used to hedge currency exposure arising from grain sales, PPOs and funding operations. The amounts to be paid or received under forward and option contracts are recognized in the same pool account or PPO program in which the related foreign currency transaction occurs, as a component of revenue. The amounts to be paid or received from currency contracts used to hedge currency risk from funding operations are recognized in the period in which they occur, as a component of net interest earnings.

Commodity contracts are used to manage price risk arising from grain sales and PPOs. The amounts to be paid or received under future and option contracts are recognized as a component of revenue, in the same pool account or PPO program as the related sale or PPO program that is being hedged.

NET INTEREST EARNINGS

Net interest earnings includes interest revenue and expenses related to accounts receivable and borrowings, bank charges, transaction and program fees on borrowing facilities and interest earned on each pool account during the pool period and until final distribution of earnings to producers.

EMPLOYEE FUTURE BENEFITS

Employees of the Corporation are entitled to specified benefits provided upon retirement or termination.

Pension Plan – Effective July 1, 2003, the Corporation began administrating its own pension plan for its employees. Previously, employees participated in the Public Service Superannuation Act (PSSA) pension plan, administered by the Government of Canada. Currently, the Corporation is negotiating with the Government of Canada for the transfer of pension assets from the PSSA for employees who choose to transfer past service to the new plan. This transfer of assets from the PSSA will occur in the future. When the asset transfer amount is known, the value of these assets, related accrued benefit obligation and other disclosures will be presented as required by the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461, Employee Future Benefits.

The Corporation sponsors three defined-benefit pension plans and one defined-contribution plan. The defined-benefit components provide pensions based on years of service and average earnings prior to retirement. The defined contribution component provides pensions based on contributions made and investment earnings. Employer contributions to the CWB Pension Plan are expensed during the year in which the services are rendered.

Other Post-Employment Benefits – The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets, over the periods in which the employees render services in return for the benefits. The Corporation has adopted the following policies:

- The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health-care costs. Post-employment benefits include health care, life insurance, long-service allowance, unused sick leave accumulated prior to 1988 and unused vacation accumulated prior to 1996.
- The transitional obligation and actuarial gains (losses) are being amortized over the Average Remaining Service Period (ARSP), which has been actuarially determined to be 12 years (2003 - 15 years).
- Amortization of actuarial gains (losses) will be recognized in the period in which, as of the beginning of the period, the net actuarial gains (losses) are more than 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets.

3. ACCOUNTS RECEIVABLE FROM CREDIT SALES PROGRAM

(dollar amounts in 000's)	Credit Grain Sales Program	Agri-food Credit Facility	**2004 Total**	2003 Total
Due from foreign customers				
Current		$ 72,752	**$ 72,752**	$ 30,416
Overdue	772,040	-	**772,040**	801,609
Rescheduled	4,446,391	-	**4,446,391**	5,045,332
	5,218,431	72,752	**5,291,183**	5,877,357
Due from Government of Canada	19,920	-	**19,920**	26,221
	$ 5,238,351	$ 72,752	**$ 5,311,103**	$ 5,903,578
Credit risk				
Guaranteed by Government of Canada	$ 5,238,351	$ 71,297	**$ 5,309,648**	$ 5,902,970
Assumed by CWB	-	1,455	**1,455**	608
	$ 5,238,351	$ 72,752	**$ 5,311,103**	$ 5,903,578

Accounts receivable balances are classified under the following applicable credit programs:

[illegible]

Accounts receivable under this program arise from sales to Algeria, Brazil, Egypt, Ethiopia, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. Of the $5,218,430,774 principal and accrued interest due from foreign customers at July 31, 2004, $3,932,453,705 represents the Canadian equivalent of $2,957,844,080, repayable in U.S. funds. Of the $5,846,940,933 principal and accrued interest due from customers at July 31, 2003, $4,389,683,187 represents the Canadian equivalent of $3,124,774,478, repayable in U.S. funds.

Overdue accounts receivable at July 31, 2004 represent amounts due from Iraq where payments for past credit sales had not been received on due dates and were still outstanding at year end.

Through a forum known as the Paris Club, the Government of Canada and other creditors have periodically agreed to extend repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country for a variety of reasons, including humanitarian concerns. All members of the Paris Club are obligated to grant the debtor country the same treatment. Under terms agreed to by the Government of Canada at the Paris Club, the Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Algeria, Brazil, Egypt, Ethiopia, Haiti, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

In addition to debt rescheduling by means of extending repayment terms, the Government of Canada has agreed to reduce the debt owed to the Corporation by Ethiopia, Poland and Zambia. Under these debt reduction arrangements, amounts that otherwise would have been paid by the debtor government are paid to the Corporation by the Government of Canada. A total of $19,919,726 was due from the Government of Canada as at July 31, 2004 under these debt-reduction agreements. Of this amount, $5,632,030 represents the Canadian equivalent of $4,236,202 that will be repayable in U.S. funds.

There is no allowance for credit losses, as the Government of Canada guarantees repayment of the principal and interest of all credit receivables under this program.

[illegible]

Accounts receivable under this facility arise from sales to customers in Indonesia, Mexico, Guatemala and Peru. The July 31, 2004 balance of $72,752,071 principal and accrued interest due under the Agri-food Credit Facility (ACF) represents the Canadian equivalent of $54,721,377 repayable in U.S. funds. The July 31, 2003 balance of $30,415,531 principal and accrued interest represents the Canadian equivalent of $21,651,147 repayable in U.S. funds.

There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. Management considers this balance collectable in its entirety, therefore there is no allowance for credit losses.

[illegible]

All accounts receivable resulting from sales made under credit programs as at July 31, 2004 have contractual interest rate repricing dates under 365 days. As a result of the short terms to repricing dates of these financial instruments, fair value approximates the carrying values.

MATURITIES

These accounts receivable mature as follows:

(dollar amounts in 000's)		2004	2003
Amounts due:	Within 1 year	**$ 592,335**	$ 493,794
	From 1 - 2 years	**549,318**	499,181
	From 2 - 3 years	**570,417**	567,198
	From 3 - 4 years	**600,447**	589,296
	From 4 - 5 years	**692,569**	620,961
	Over 5 years	**1,533,977**	2,331,538
	Overdue	**772,040**	801,610
		$ 5,311,103	$ 5,903,578

4. ACCOUNTS RECEIVABLE FROM ADVANCE PAYMENT PROGRAMS

(dollar amounts in 000's)	Agricultural Marketing Programs Act	Prairie Grain Advance Payments Act	Spring Credit Advance Program	Unharvested Threshed Grain Advance Program	2004 Total	2003 Total
Due from producers	$ 58,989	$ -	$ 242,763	$ 52	**$ 301,804**	$ 364,011
Due from (to) Government of Canada	(57)	1	781	(9)	**716**	2,456
Due from agents of the CWB	20,148	-	(3,892)	-	**16,256**	8,357
	$ 79,080	$ 1	$ 239,652	$ 43	**$ 318,776**	$ 374,824

The Corporation administers the cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the Government of Canada. The Government guarantees the repayment of advances made to producers; therefore the Corporation is not exposed to credit risk. The Corporation recovers its costs of administering the programs from the Government and from producers using the program.

The Government of Canada introduced the *Agricultural Marketing Programs Act (AMPA)* in 1997 to provide producers with cash flow by advancing money for grain stored on the farm. This program replaced a previous Government of Canada program under the *Prairie Grain Advance Payments Act (PGAPA)*. The Government of Canada pays interest on advances up to $50,000 and the producer pays interest on any amounts in excess of $50,000.

The Government of Canada introduced the *Spring Credit Advance Program (SCAP)* in the spring of 2000 to assist producers with spring seeding costs. The program enables producers to receive up to $50,000, with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*.

The Government of Canada introduced the *Unharvested Threshed Grain Advance Program* in the 2002-03 crop year. The program provides cash flow to farmers who are unable to harvest their grain due to early snowfall. The program enables producers to receive up to $25,000 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to producers in the fall under the *AMPA*.

Cash advances issued during the year by the Corporation under these programs totaled $706,091,160, including $462,894,675 issued under the *AMPA* and $243,196,485 issued under the *SCAP*.

Collections from producers and grain companies subsequent to reimbursement by Government of Canada, plus interest on default accounts collected from producers, are remitted to the Government of Canada as these amounts are received.

Due to the timing of producer deliveries and subsequent remittance by the agent to the Corporation, a component of advance receivables is due from agents.

5. INVENTORY OF GRAIN

Inventory of grain at July 31 is reported at values ultimately expected to be received as sale proceeds as follows:

	2004		2003	
(dollar amounts in 000's)	Tonnes	Amount	Tonnes	Amount
Wheat	2 334 701	**$ 520,125**	2 981 996	$ 649,368
Durum	1 065 995	**247,404**	1 584 030	413,060
Designated barley	465 267	**96,592**	241 853	53,836
Barley	52 660	**7,148**	30 589	5,677
	3 918 623	**$ 871,269**	4 838 468	$ 1,121,941

6. DEFERRED AND PREPAID EXPENSES

(dollar amounts in 000's)	2004	2003
Net results of hedging activities applicable to subsequent pool accounts	**$ (26,070)**	$ 18,216
Prepaid cost of moving inventory to eastern export position	**15,663**	-
Deposits on commodity margin accounts	**15,325**	10,930
Purchase and lease-renewal options on leased hopper cars	**3,859**	4,193
Other	**1,316**	1,967
	$ 10,093	$ 35,306

7. CAPITAL ASSETS

(dollar amounts in 000's)	2004 Cost	2004 Accum deprec.	2004 Net book value	2003 Cost	2003 Accum deprec.	2003 Net book value
Computer systems development	**$ 61,113**	**$ 32,003**	**$ 29,110**	$ 54,582	$ 25,086	$ 29,496
Hopper cars	**83,130**	**67,890**	**15,240**	83,583	65,473	18,110
Computer equipment	**16,656**	**12,142**	**4,514**	14,891	11,179	3,712
Furniture and equipment	**4,992**	**3,778**	**1,214**	4,971	3,557	1,414
Land, building and improvements	**8,679**	**7,694**	**985**	8,275	7,505	770
Automobiles	**508**	**135**	**373**	512	133	379
Leasehold improvements	**158**	**158**	**-**	158	158	-
	$175,236	**$ 123,800**	**$ 51,436**	$ 166,972	$ 113,091	$ 53,881

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,555,620. Of these, 164 cars have been wrecked and dismantled, leaving 1,836 in the fleet. The Corporation is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

8. BORROWINGS

The Corporation issues debt in world capital markets. The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are unconditionally and irrevocably guaranteed by the Minister of Finance on behalf of Her Majesty in right of Canada through an explicit guarantee included in *The Canadian Wheat Board Act*.

Short-term borrowings consist of commercial paper issued by the Corporation in the Canadian, United States and Euro markets, bank loans and medium-term notes with remaining maturities less than one year. The Corporation uses swaps in the same notional amounts and with the same terms as the underlying borrowings to convert the currency exposure to either the Canadian dollar or the United States dollar.

Long-term borrowings are notes issued in the Domestic and Euro Medium Term Note market with an original term to maturity between one and 15 years. The majority of the Corporation's long-term notes are structured securities where interest is calculated based on certain index, formula or market references and are redeemable by the Corporation before maturity due to embedded call features. The Corporation uses swap contracts to mitigate currency risk and manage interest-rate risk associated with long-term borrowings. These contracts ultimately create a floating rate obligation similar to that of the Corporation's short-term borrowings and ensure that the Corporation will receive proceeds from the swap to offset currency and interest-rate fluctuations on the notes' principal and interest payments.

(dollar amounts in 000's)	Effective interest rate (%)	2004	2003
Short-term borrowings	0.96 - 2.80	**$ 5,612,617**	$ 7,515,620
Long-term borrowings	0.74 - 1.63	**1,455,046**	346,873
Accrued interest	-	**19,130**	29,072
Total borrowings	0.74 - 2.80	**7,086,793**	7,891,565
Less temporary investments	1.26 - 2.03	**(1,604,658)**	(1,460,093)
Net borrowings	0.74 - 2.80	**$ 5,482,135**	$ 6,431,472

Of the net borrowings at July 31, 2004, $3,720,270,034 represents the Canadian equivalent of $2,798,247,487 that will be repayable in U.S. funds. Of the net borrowings at July 31, 2003, $4,410,350,021 represents the Canadian equivalent of $3,139,486,063 repayable in U.S. funds.

These borrowings mature as follows:

(dollar amounts in 000's)		2004	2003
Amounts due:	within 1 year	**$ 5,631,747**	$ 7,544,692
	from 1 - 2 years	**9,495**	-
	from 2 - 3 years	**59,828**	33,777
	from 3 - 4 years	**26,590**	-
	from 4 - 5 years	**59,828**	56,192
	over 5 years	**1,299,305**	256,904
		$ 7,086,793	$ 7,891,565

After giving effect to interest rate swaps, all borrowings have contractual interest-rate repricing dates of 365 days or less and, as a result, carrying values of these borrowings approximate their fair values.

9. ACCOUNTS PAYABLE & ACCRUED EXPENSES

(dollar amounts in 000's)	2004	2003
Accounts payable and accrued liabilities	$ 77,155	$ 61,867
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	50,541	63,786
Deferred sales revenue	20,350	12,219
	$ 148,046	$ 137,872

10. LIABILITY TO AGENTS

(dollar amounts in 000's)	2004	2003
Grain purchased from producers	$ 467,957	$ 756,076
Deferred cash tickets	74,556	120,739
	$ 542,513	$ 876,815

GRAIN PURCHASED FROM PRODUCERS

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to the Corporation by the agents at terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for grain on hand at country elevator points and in transit at July 31, for which delivery to and settlement by the Corporation is to be completed subsequent to the year-end date.

DEFERRED CASH TICKETS

Grain companies, acting in the capacity of agents of the Corporation, deposit in trust with the Corporation an amount equal to the value of deferred cash tickets issued to producers for Corporation grain. The Corporation returns these funds to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

11. LIABILITY TO PRODUCERS – UNDISTRIBUTED EARNINGS

Undistributed earnings represent the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. Of the undistributed earnings, totalling $463,886,647 (2003 - $208,594,604), $258,787,473 (2003 - $151,527,062) was distributed to producers in an interim payment on October 5, 2004. The balance of $205,099,174 (2003 - $57,067,542) will be distributed to producers through final payments and producer car rebates.

12. PROVISION FOR PRODUCER PAYMENT EXPENSES

The amount of $2,240,709 (2003 - $2,614,031) represents the balance of the reserve for producer-payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor-in-Council.

13. SPECIAL ACCOUNT – NET BALANCE OF UNDISTRIBUTED PAYMENT ACCOUNTS

In accordance with the provision of Section 39 of *The Canadian Wheat Board Act*, the Governor-in-Council may authorize the Corporation to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor-in-Council, upon the recommendation of the Corporation, may deem to be for the benefit of producers. The activity in the Special Account is comprised of:

(dollar amounts in 000's)	2004	2003
Beginning of year	$ 4,948	$ 4,199
Transfer from payment accounts	247	1,622
Expenditures	(1,132)	(868)
Payments to producers against old payment accounts	(3)	(5)
End of year	$ 4,060	$ 4,948
Ending balance comprised of:		
Unexpended authorizations	978	780
Not designated for expenditure	3,082	4,168
	$ 4,060	$ 4,948

During the year ended July 31, 2004, the balance from payment accounts for 1996 wheat, 1996 durum and 1996 designated barley were transferred to the Special Account under Order-in-Council P.C. 2004-571.

Program activity during the 2003-04 crop year is detailed as follows:

(dollar amounts in 000's)	Unexpended at beginning of year	Authorized	Expended	Expired	Unexpended at end of year
Market development program	$ 326	$ 35	$ (19)	$ -	$ 342
Canadian International Grains Institute					
Capital expenditures	185	300	(80)	-	405
University of Manitoba					
Agribusiness Chair	150	-	(75)	-	75
Grain Storage Research Facility	-	400	(400)	-	-
Scholarship program	119	280	(393)	-	6
Fusarium Head Blight research					
Project for barley	-	165	(165)	-	-
Variety Identification Project	-	150	-	-	150
	$ 780	$ 1,330	$ (1,132)	$ -	$ 978

14. CONTINGENCY FUND

The Canadian Wheat Board Act provides for the establishment of a contingency fund. The contingency fund can be populated through a variety of mechanisms, including the results of operations of the Producer Payment Options or other sources of revenue received in the course of operations. The components of the contingency fund are described below:

[illegible]

The Corporation has implemented payment alternatives for producers. The Fixed Price Contract/Basis Price Contract (FPC/BPC) provides producers with the opportunity to lock in a fixed price or basis for all or a portion of their grain prior to the beginning of the crop year. Full payment for the grain is received immediately after delivery and the producer is not eligible for other payments from the pool account. The Early Payment Option (EPO) provides producers with a greater portion of their expected final pool price at time of delivery while still remaining eligible for other payments from the pool account.

The surplus or deficit arising from the operation of these programs is transferred to a contingency fund so that net operating results will not affect the pool accounts.

[illegible]

As provided for under *The Canadian Wheat Board Act*, interest earnings from the barley pool have been transferred to the contingency fund. The transfer amount is based on a specific formula approved by the board of directors. The formula ensures that a fair amount of interest earnings, on a per-tonne basis, are allocated to the barley pool and the distorting effect of certain fixed costs in years when pool volume is unusually low is mitigated. Consistent with the treatment applied to the pools and Producer Payment Options program, the surplus is not specifically funded and earns interest at the Corporation's weighted-average cost of borrowing.

The 2002-03 wheat pool deficit payment from the Government of Canada and related accounting treatment between the wheat pool account and the wheat EPO accounts resulted in a charge of $1,288,663 to the contingency fund.

The contingency fund balance at July 31, 2004 is detailed as follows:

	Producer Payment Options Program					**2004**	2003
(dollar amounts in 000's)	Wheat	Durum	Des barley	Barley	Other	**Total**	Total
Opening surplus, beginning of year	$ 4,665	$ (10)	$ -	$ 240	$ 12,340	**$ 17,235**	$ 11,422
Transferred from Pool accounts	-	-	-	-	-	-	5,077
Surplus from Producer Payment Options program	419	195	385	1,230	-	**2,229**	588
Interest earned on non-program fund balances	-	-	-	-	278	**278**	148
Adjustment related to 2002-03 EPO Program	(1,289)	-	-	-	-	**(1,289)**	-
Closing surplus, end of year	$ 3,795	$ 185	$ 385	$ 1,470	$ 12,618	**$18,453**	$ 17,235

15. INVENTORY ADJUSTMENTS

Inventory Adjustments capture the related dollar impact, at the current initial price of changes in grade and protein of the grain delivered by producers from the grain that is ultimately available for sale.

Overall promotion in the grain handling system is disclosed as an expense to the pool because the Corporation compensates grain companies for the increase in current initial price value created by positive blending activities. Generally, there is an overall benefit to the pool to the extent that the greater sales value returned to the pool from selling higher-quality grain exceeds the increase in the initial value.

In the case of demotions, the opposite is true. The pools' overall sales value will be lower from having lower-quality grain to sell, compared to that which was reported and upon which the Corporation must still make future adjustment, interim and final payments. This loss is partially mitigated because the grain companies are only reimbursed the value of the lower-quality grain, whereas they have paid the farmer the higher initial price of the higher-quality grain originally reported as delivered.

16. OTHER GRAIN PURCHASES

Other Grain Purchases captures the net result of inventory overages acquired at initial price and inventory shortages sold at export price. These overages and shortages occur when the Corporation's agents' inventory records differ from those of the Corporation. Acquired overages are recorded as an expense to the pool, with the pool benefiting to the extent that the ultimate sales proceeds of this grain exceed its cost. Shortages must be settled by the Corporation's agents at export price so that the pool is not negatively impacted by the disappearance of recorded stocks.

17. OTHER DIRECT EXPENSES

Other Direct Expenses are primarily made up of contract-cancellation charges, program expenses, agents' commissions, fees for inspection and testing of grain, Corporation owned and leased hopper cars and demurrage.

18. OTHER INCOME

Other Income is primarily made up of the Freight-Adjustment Factor recovery and recovery of charges, deducted by the Corporation's agents at time of producer delivery, that were subsequently not incurred by the agent. The most significant charge recovered is the recovery of the rail-freight cash ticket deduction when grain moves to a location other than terminal position.

19. ADMINISTRATIVE EXPENSES

(dollar amounts in 000's)	**2004**	2003
Administrative expenses for fiscal year ended July 31	**$ 68,008**	$ 66,664
Current fiscal year's expense related to administration of the prior year's pool accounts	-	(11,993)
Prior fiscal year's expense related to administration of the current year's Producer Payment Options program	-	83
Adjusted administrative expenses	**$ 68,008**	$ 54,754
Allocated as follows:		
Wheat pool	**$ 45,362**	$ 35,016
Durum pool	**11,288**	15,316
Designated barley pool	**7,838**	3,590
Barley pool	**3,093**	160
Total to pools	**67,581**	54,082
Wheat FPC/BPC Producer Payment Option program	**255**	356
Durum FPC Producer Payment Option program	-	18
Producer payment accounts	**172**	298
	$ 68,008	$ 54,754

Administrative expenses, less the expenses attributable to the distribution of final payments and the incremental costs related to the Producer Payment Options program, are allocated to each pool on the basis of relative tonnage.

20. COMMITMENTS

The Corporation administers leases for grain hopper cars for the Government of Canada with lease terms of 25 years, expiring in 2006. Of the 1,750 cars leased under the original agreements, 86 have been wrecked and dismantled, leaving 1,664 cars in this fleet. All lease costs to the end of the original lease periods are recoverable from the Government of Canada and not charged to the pool accounts. Total payments associated with these leases for the year ended July 31, 2004 were $14,629,999 (2003 - $16,658,004).

In 1995, the Corporation purchased an option to extend the lease agreement on 250 hopper cars for a five-year term at a bargain lease rate. Effective October 1, 2000, the Corporation exercised this right on the 244 remaining cars. The cost of the option is being amortized over the term of the five-year extension. The lease payments under this lease-extension option are not recoverable from the Government of Canada and will be paid directly by the pool accounts. Effective April 2001, the Corporation sublet the remaining 242 cars to a third party for a term expiring October 2005.

Between 1991 and 1995, the Corporation purchased options to acquire 1,550 of the Government of Canada cars at the end of the lease terms in 2006. Of these cars, 77 cars have been wrecked and dismantled, leaving 1,473 cars, which may be purchased at a total cost of $17,393,022 in United States dollars. The cost of these options is recorded in deferred and prepaid expenses.

The Corporation has entered into operating leases for premises and office equipment. Lease terms are for periods ranging from one to six years, expiring between August 2004 and October 2008. The Corporation has the option to renew most of these leases for additional terms ranging from one to three years. Total lease payments for premises and office equipment expensed in the year ended July 31, 2004 were $875,566 (2003 - $1,071,509).

Lease costs on premises and office equipment are charged to Administrative Expenses. Commitments under operating leases are as follows:

(dollar amounts in 000's)	Hopper cars (US$)	Premises & office equipment (Cdn$)
2005	456	480
2006	76	218
2007	-	162
2008	-	27
After 2008	-	-

In addition, the Corporation has agreed to fund the operations of the Canadian International Grains Institute for a base amount of $1,666,000 annually through to 2008.

21. DERIVATIVE FINANCIAL AND COMMODITY INSTRUMENTS

The Corporation enters into single and cross-currency interest-rate swap contracts to manage its funding costs and to implement asset/liability management strategies designed to reduce exposure resulting from currency and interest-rate fluctuations.

The Corporation also enters into foreign exchange forward and currency swap agreements with financial institutions to hedge currency exposure arising primarily from grain sales and funding operations.

These financial instruments qualify for hedge accounting and are not recognized in the balance sheet. As at July 31, 2004 the total notional amount of these financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2004			2003		
(dollar amounts in 000's)	**Notional amounts**	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest rate contracts						
Single-currency interest rate swaps	**$ 732,575**	**$ (2,791)**	**$ 3,737**	$ 196,812	$ (8,562)	$ 47
Cross-currency interest rate swaps	**722,471**	**(24,560)**	**8,125**	163,637	3,219	5,221
	1,455,046	**(27,351)**	**11,862**	360,449	(5,343)	5,268
Foreign exchange contracts						
Forwards	**1,412,962**	**24,253**	**29,084**	940,379	(12,282)	5,851
Currency swaps	**815,372**	**(6,519)**	**6,879**	1,180,301	(20,537)	3,624
	2,228,334	**17,734**	**35,963**	2,120,680	(32,819)	9,475
	$ 3,683,380	**$ (9,617)**	**$ 47,825**	$ 2,481,129	$ (38,162)	$ 14,743

As of the statement date, all foreign-exchange contracts mature within one year. The interest-rate contracts with maturities between one and five years and beyond five years had notional amounts outstanding of $155,740,520 and $1,299,305,405 respectively. The swap contracts rates ranged between 0.74 per cent and 1.63 per cent.

The net fair value of interest rate and foreign-exchange contracts refers to the estimated net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies including net present value analysis and quoted market prices where available. These estimates of fair value are affected by the assumptions used and, as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The Corporation is only exposed to credit risk on contracts with a positive fair value. The credit-risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the financial risk-management policies approved by the Corporation's Board of Directors. Master netting agreements are used to reduce credit risk from potential counterparty default. The largest notional amount contracted with any institution as at July 31, 2004 was $780,784,034 (2003 - $477,323,291) and the largest credit risk with any institution as at July 31, 2004 was $8,956,933 (2003 - $3,104,487).

The Corporation also enters into commodity contracts, including futures and options, for wheat and barley in the exchange markets, as a normal course of business. The contracts outstanding at July 31 are carried in the financial statements at fair value.

22. EMPLOYEE FUTURE BENEFITS

Employee future benefits relate to the Corporation's pension plans and the other post-employment benefits.

Total cash payments for employee future benefits, consisting of cash contributed by the Corporation to its defined benefit and defined contribution plans, plus cash payments made directly to employee and beneficiaries and third-party service providers for the benefit plans, were $4,961,798 (2003 - $5,057,372).

PENSION PLANS

The Corporation's pension expense for the year ended July 31, 2004 was $3,969,688 (2003 - $4,128,052) including *The Public Service Superannuation Act* contributions. As a result of corporate review, there were staff reductions that have had an impact on pension plans. The financial effect of this event is not known.

An actuarial valuation of the Corporation's pension plan is currently in process and is required annually for the first three years of existence. The Corporation is not able to disclose the full pension obligation or plan assets for the year ended July 31, 2004 as required by Generally Accepted Accounting Principles, because the actuarial valuation is not complete, pending completion of the pension-transfer asset value.

Defined Benefit Pension Plan assets:

These tables include the defined benefit components of the Corporation's pension plans, but exclude the pension transfer value from the PSSA plan. Plan assets for the year ended July 31, 2003 reflect only one month of activity, as the Corporation began administering its own plans effective July 1, 2003.

Change in fair value

(dollar amounts in 000's)	**2004**	2003
Balance, beginning of year	**$ 427**	$ -
Actual return on plan assets	**205**	2
Employer contributions	**3,868**	317
Employee contributions	**1,191**	108
Benefits & expenses	**(377)**	-
Balance, end of year	**$ 5,314**	$ 427

The percentages of plan assets, based on market values at July 31 are:

Asset category	**2004**	2003
Equity securities	**43%**	58%
Debt securities	**28%**	36%
Other	**29%**	6%
Total	**100%**	100%

Defined contribution plan:

The Corporation expensed $32,169 (2003 - $2,810) to the defined contribution component of the Corporation's pension plan. Employees contributed $142,189 (2003 - $12,389) to the defined contribution component of the Corporation's pension plan as at July 31, 2004. Benefits paid from the defined contribution component were $12,739 (2003 - $0).

OTHER POST-EMPLOYMENT BENEFITS

The Corporation measures its accrued benefit obligations for accounting purposes as at July 31, 2004. The most recent actuarial valuation was completed as of July 31, 2004. The next required valuation will be as of July 31, 2007.

The following tables present information related to post-employment benefit plans provided by the Corporation, including amounts recorded on the Balance Sheet and the components of the cost of net benefits for the period.

Reconciliation of accrued benefit obligation:

(dollar amounts in 000's)	**2004**	2003
Accrued benefit obligation, beginning of year	**$ 18,616**	$ 17,891
Employee contributions	**-**	-
Benefits paid	**(992)**	(929)
Current service cost	**626**	591
Interest cost	**1,106**	1,063
Curtailment*	**1,227**	-
Curtailment recognized	**(1,227)**	-
Actuarial loss	**7,502**	-
Accrued benefit obligation, end of year	**$ 26,858**	$ 18,616

Reconciliation of the accrued obligation and plan deficit to accrued liability:

(dollar amounts in 000's)	**2004**	2003
Fair value of plan assets	**$ -**	$ -
Accrued benefit obligation	**26,858**	18,616
Funded status - plan deficit	**(26,858)**	(18,616)
Unamortized net actuarial (gain) loss	**7,502**	-
Unamortized transitional obligation	**8,911**	10,948
Accrued benefit liability, end of year	**$ (10,445)**	$ (7,668)

The accrued benefit liability included on the Corporation's balance sheet is:

(dollar amounts in 000's)	**2004**	2003
Accrued benefit liability, beginning of year	**$ (7,668)**	$ (6,031)
Current service cost	**(626)**	(591)
Interest cost	**(1,106)**	(1,063)
Benefits paid	**992**	929
Amortization of transitional obligation	**(810)**	(912)
Curtailment*	**(1,227)**	-
Accrued benefit liability, end of year	**$ (10,445)**	$ (7,668)

*During 2003-04, staff reductions resulted in curtailment, which has been fully expensed by the Corporation.

The Corporation's expense elements with respect to other post-employment benefits are:

(dollar amounts in 000's)	**2004**	2003
Current service cost	**$ 626**	$ 591
Interest cost	**1,106**	1,063
Amortization of transitional obligation	**810**	912
Curtailment	**1,227**	-
Actuarial loss	**7,502**	-
Net cost (before adjustments)	**11,271**	2,566
Adjustments-actuarial loss	**(7,502)**	-
Total expense included in Administrative Expenses	**$ 3,769**	$ 2,566

The weighted-average assumptions at the measurement date used in the calculation of the Corporation's benefit obligation are shown in the following table:

	2004	2003
Discount rate	**6.25%**	6.00%
Rate of compensation increase	**4.00%**	4.00%
Medical cost trend rate	**10.00%**	n/a
Medical cost trend rate declines to	**5.00%**	n/a
Medical cost trend rate declines over	**5 years**	n/a
Dental cost trend rate	**3.00% per year**	n/a

Assumed medical/dental cost trend rates have a significant effect on the amounts reported. A one percentage-point change in assumed rates would have the following effects for 2004:

(dollar amounts in 000's)	Increase	Decrease
Accrued benefit obligation	$ 3,493	$ (2,728)
Current service and interest cost	$ 438	$ (331)

23. CONTINGENT LIABILITY

On September 13, 2002 the North Dakota Wheat Commission and the U.S. Durum Growers Action Committee filed countervailing duty (CVD) and antidumping (AD) petitions against imports of Canadian hard red spring wheat (HRS) and durum. Over the course of the year, the Corporation vigorously defended these challenges. Preliminary tariffs came into effect in March 2003 and May 2003 for the CVD and AD petitions, respectively. On October 3, 2003 the U.S. International Trade Commission (ITC) ruled 4-0 that imports of durum are not causing injury to the U.S. durum-growing industry. Accordingly, tariffs on durum were lifted and tariff free access to the U.S. durum market has been re-established. In the case of HRS, the ITC ruled 2-2 that Canadian HRS imports are causing injury resulting in AD and CVD tariffs totaling 14.15 per cent that will be in place pending the completion of certain appeals that have been launched by the CWB and/or of administrative reviews by the U.S. Deptartment of Commerce. At this time, it is not possible to accurately assess the financial impact of the imposition of tariffs on HRS. The Corporation is pursuing a variety of appeal avenues with respect to the HRS decisions.

24. COMPARATIVE FIGURES

Certain of the prior year's figures have been restated to conform with the current year's presentation.

Glossary of financial terms

Cross-currency interest-rate swap – a contractual agreement for specified parties to exchange principal, fixed and floating interest-rate payments in different currencies. Notional amounts upon which the interest-rate payments are based are not exchanged.

Currency swap – a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.

Derivative financial instrument – a contract or security that obtains much of its value from price movements in a related or underlying security, future or other instrument or index.

Fair value – an estimate of the amount of consideration that would be agreed upon between two arm's-length parties to buy or sell a financial instrument at a point in time.

Foreign exchange forward – an agreement to buy and sell currency simultaneously purchased in the spot market and sold in the forward market, or vice versa.

Futures contract or futures – a future commitment to purchase or deliver a commodity or financial instrument on a specified future date at a specified price. The futures contract is an obligation between the Corporation and the organized exchange upon which the contract is traded.

Hedge – a risk-management technique used to decrease the risk of adverse commodity price, interest-rate or foreign-exchange movements by establishing offsetting or risk-mitigating positions intended to reduce or minimize the Corporation's exposure.

Liquidity – having sufficient funds available to meet corporate obligations in a timely manner.

Notional amounts – a reference amount upon which payments for derivative financial instruments are based.

Option – a contract that grants the right, but not the obligation, to buy or sell a commodity or financial instrument at a specified price at a specified point in time during a specified period.

Risk management – the application of financial analysis and diverse financial instruments to the control and, typically, the reduction of selected types of risk.

Single currency interest-rate swap – a contractual agreement for specified parties to exchange fixed interest-rate payments for floating interest rate payments based on a notional value in a single currency. Notional amounts upon which the interest-rate payments are based are not exchanged.

Swap – a contractual agreement to exchange a stream of periodic payments with a counterparty.

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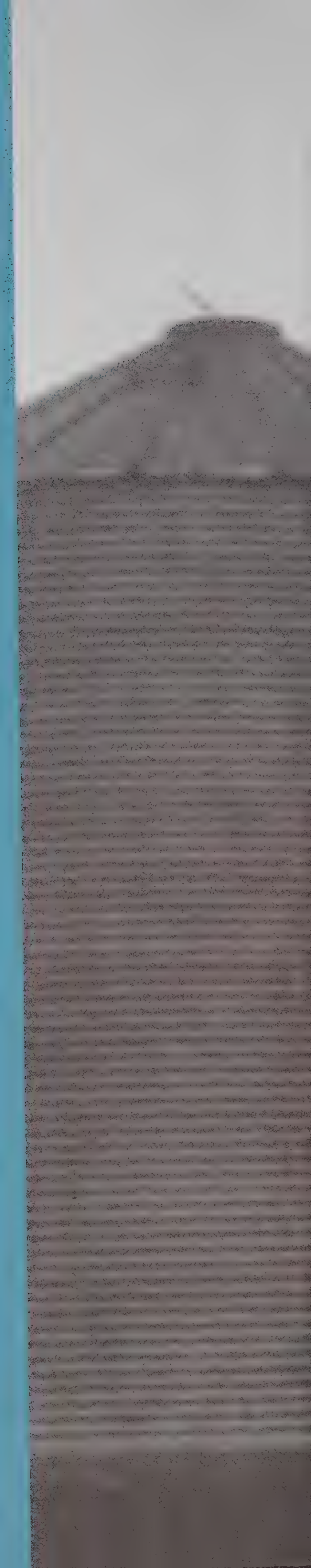
CWB



PURSUING INNOVATION

2004-05 annual report

CWB
The Canadian Wheat Board

Vision

To serve western Canadian grain farmers as the world-recognized, premier grain marketer.

Mission

The CWB markets and provides quality products and services in order to maximize value to our owners, western Canadian grain farmers.

Contents

2004-05 CWB ANNUAL REPORT SURVEY

We want to hear from you.

As part of our commitment to provide our stakeholders and customers with clear and relevant information, we'd like to know what you think about our annual report.

Please take a few minutes to complete this card and return it to the CWB. Your opinions are important to us and will be used for planning next year's annual report.

Overall (5=excellent, 1=poor)

Information is clear	5	4	3	2	1
Information is relevant	5	4	3	2	1
Easy to read	5	4	3	2	1

The section I found most interesting was (check one):

___ Pursuing Innovation
___ Corporate governance
___ Management discussion and analysis
___ Financial results

I learned something new about the CWB by reading the annual report.

___ Yes
___ No

Length of content in the report

___ Overall, it was too long
___ Overall, it was too short
___ The length was just right

I would have liked to read more about: ______________________________

____

____

Other comments or suggestions: ______________________________

____

____

I am a:

___ Farmer
___ Domestic customer
___ International customer
___ Financial company
___ Agricultural company
___ Accredited exporter
___ Federal government
___ Provincial government
___ Other

CWB

CANADA POSTES
POST CANADA

Postage paid
if mailed in Canada
Business Reply Mail

Port payé si posté
au Canada
Correspondance-réponse d'affaires

4656768 01

1000013354-R3C2P5-BR01

CORP COMMUNICATIONS/ANNUAL REPORT
THE CANADIAN WHEAT BOARD
PO BOX 816 STN MAIN
WINNIPEG MB R3C 9Z9

Corporate profile

The CWB markets western Canadian wheat, durum wheat and barley in Canada and throughout the world.

All sales revenue, less marketing costs, is returned to farmers. The CWB is controlled by a board of directors that is comprised of 10 farmer-elected members and five federal government appointees. As a key international grain trader and a major earner of foreign exchange, the CWB and Prairie wheat and barley producers compete successfully with other major players in the grain industry.

Financial highlights

	2004-05	2003-04	2002-03	2001-02	2000-01
Combined pool operating results ($ millions)					
Revenue	**$3,739.3**	$4,136.2	$3,339.9	$4,379.2	$4,220.9
Direct costs	**407.5**	369.7	318.7	384.5	350.5
Net revenue from operations	**3,331.8**	3,766.5	3,021.2	3,994.7	3,870.4
Other income	**163.4**	161.1	132.7	188.5	179.9
Net interest earnings	**53.4**	56.1	54.8	91.6	75.2
Administrative expenses	**(69.2)**	(67.6)	(54.1)	(50.4)	(66.4)
Grain industry organizations	**(1.6)**	(1.8)	(1.8)	(1.7)	(1.7)
Earnings for distribution	**$3,477.8**	**$3,914.3**	**$3,152.8**	**$4,222.7**	**$4,057.4**
Receipts from producers (000's tonnes)					
Wheat	**13 296.3**	12 376.0	8 696.0	13 331.0	13 961.0
Durum	**3 824.0**	3 079.7	3 804.0	3 246.0	3 665.0
Designated barley	**1 752.5**	2 138.4	891.0	2 205.0	2 273.0
Barley (pool A)	**29.0**	–	–	–	–
Barley (pool B)	**468.7**	–	–	–	–
Barley	–	844.0	40.0	54.0	454.0
Total	**19 370.5**	**18 438.0**	**13 431.0**	**18 836.0**	**20 353.0**

A message from the chair of the board of directors and the president and CEO

On July 5, 2005, the CWB celebrated its 70th anniversary, marking a significant milestone in the history of Prairie wheat and barley farming. Seven decades ago, farmers sold their grain individually, leaving them vulnerable to the self-interests of railways and multinational grain companies. They grew some of the finest grain available, but the Canadian agricultural landscape meant they could exert little control over the prices they received for their crops.

Creating the CWB allowed farmers to combine their power together under one marketer, while still maintaining their much-valued independence. Selling together through a single desk gave individual farmers collective marketing clout in a world dominated by a handful of large private corporations. It allowed them to compete globally, while still protecting their entrepreneurial spirits.

Over the years, it became evident that the CWB offered other benefits as well. Selling together through a single desk enabled farmers to provide customers with consistent quality and supply, as buyers began to seek out the premium-quality grain that only Western Canada could provide. Long-term sales agreements were signed, providing ready and reliable markets for Prairie wheat and barley.

The CWB also ensured that farmers' individual opinions could be heard together as a collective voice, loud enough to be noticed by agriculture policy-makers. Working together through the CWB has also given farmers a say in agricultural research and plant breeding, so that farmers' profitability is a key consideration in variety development and registration.

But significant anniversaries should do more than mark a journey already taken. The past is the past; it can be learned from and celebrated, but it cannot be changed. More importantly, anniversaries provide an opportunity to measure current situations and take stock of what is needed to succeed in the future.

As the CWB enters its eighth decade, this farmers' marketing organization is not resting on past laurels and reminiscing about times gone by. Instead, we are looking ahead, making innovative changes and embracing original ideas that will ensure the continued competitiveness of western Canadian farmers. Bold ideas are needed as we meet the future – initiatives that preserve the fundamentals of the past, while positioning Prairie farmers to succeed in a changing world.

A major change took place in 1998, when control of the CWB was turned over to those who fund its operations: Prairie farmers. But this is not enough, because farmers continue to face major challenges, including volatile world grain markets, price-depressing foreign subsidies, rising input costs and unrelenting weather patterns.

The CWB is looking ahead, making innovative changes and embracing original ideas that will ensure the continued competitiveness of western Canadian farmers.

One need only look at the 2004-05 crop year to see these challenges play out, as farmers faced a nearly non-existent growing season. Cold spring temperatures were followed by an unexpected and unwelcome snowfall in mid-May. When seeding finally resumed, growth rates were stunted by one of the coldest summers ever recorded. But the worst was yet to come.

On August 20, 2004, an early frost hit vast regions of the Prairies, and farmers worried their bottom lines would suffer significantly. Cold, wet weather followed the early frost, and soggy fields and drenched yards made it difficult for farmers to bring in their crops. In some cases, farmers were forced to abandon harvesting until the following spring.

Challenges, however, can often be met by finding inventive solutions. Ideas can be put into practice that not only solve immediate dilemmas, but provide platforms for sustainable and bountiful futures.

In 2004-05, the CWB successfully pursued a number of innovative ideas designed to help farmers with a difficult crop year. Longer-term programs were also created and key investments were made that will help ensure the lasting futures of Prairie farmers. As you read through this publication, you'll learn more about the CWB's achievements in creating these programs and launching new initiatives that provide farmers with more marketing flexibility and the tools needed to achieve their goals.

However, the journey toward innovation does not end here. We can celebrate our success and enjoy our history, but we must focus our vision on the future – a future where Prairie farmers are fully in charge of their collective marketing organization and where their profitability is the [illegible] consideration driving all marketing decisions.

Current World Trade Organization (WTO) negotiations place more urgency on the future positioning and structure of the CWB, because if a final deal is reached, initial payments and borrowings will no longer be guaranteed by the federal government.

Belief in innovation and faith in positive change are needed to ensure the CWB is able to meet the needs of both Prairie farmers and the customers it serves. The CWB has already begun a purposeful march down an evolving path. As we journey forward, we will remember that which served Prairie farmers well in the past and protect these fundamentals, but our vision will be focussed decisively on the future.

Ken Ritter

Ken Ritter
Chair, board of directors

Adrian Measner

Adrian Measner
President and Chief Executive Officer

INNOVATION is about being

new paths; looking for

giving options; adding

trailblazing; taking

thinking; and investing

INVENTIVE NEW NOVEL OPTIONS VALUE ADVANCED

TRAILBLAZING INITIATIVE ORIGINAL NOTABLE

inventive; investigating novel opportunities; value; being advanced; initiative; using original in notable research.

The CWB is dedicated to pursuing innovation, both through the programs it designs for Prairie farmers and the investments it makes to enhance customer service, which ensures continued demand for the finest wheat and barley grown in the world.

As you continue through these pages, you'll read about some of the activities undertaken and programs designed by the CWB in 2004-05.

While the achievements are both many and memorable, they in no way signal an end point. Pursuing innovation will remain a cornerstone of the CWB's planning, action and activities as we move into the future.

INVENTIVE
NEW
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TRAILBLAZING
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NOTABLE

Inventive

The CWB **modified its Early Payment Option (EPO)** program to improve farmers' ability to get money sooner. The EPO, which allows farmers to receive 80, 90 or 100 per cent of the projected value of their grain within 10 working days of delivery, normally has to be contracted prior to delivery. However, realizing that many farmers faced significant financial challenges in 2004-05, the CWB opted to make a one-time-only modification to the program, giving farmers the option to apply previously delivered grain to new EPOs. This change gave farmers access to much-needed cash flow.

New

- The new **CWB Master Grower awards program** was launched to ensure western Canadian farmers are recognized for their success in producing outstanding wheat and malting barley crops. Each year, farmers are invited to send in samples of their best crops, which are judged on quality, end-use suitability and best management practices. Awardees are designated "Master Growers", receive a prize package and participate in special education programs.
- The CWB **changed the way farmers commit their feed barley** to the CWB by splitting the crop year into two pooling periods instead of one. The first pool runs from August 1 to January 31 and the second from February 1 to July 31. Pool Return Outlooks (PROs) are issued for both pools, giving farmers better price signals on feed barley and improving the CWB's ability to attract deliveries when sales opportunities are favourable.

Novel

- The CWB hedges Fixed Price Contracts (FPCs) and Basis Payment Contracts (BPCs) in futures markets to offset any potential losses caused by undesirable price changes. At times, this practice results in financial gains for the organization, which are then placed in the CWB's contingency fund. In 2004-05, the CWB initiated a one-time-only policy change and **returned hedging gains to farmers,** to help reduce the financial difficulties faced by those unable to fulfil their contracts due to the extreme weather conditions.

Options

- The CWB provided farmers with more marketing choice by **launching a new Producer Payment Option called the Daily Price Contract (DPC).** Through the DPC, farmers can choose a price for their wheat based on daily cash prices derived from U.S. elevator prices. The program gives farmers even more options, while still protecting the marketing clout of the CWB's single desk. Prairie farmers have the ability to track markets on a daily basis and receive a price that reflects a basket of U.S. elevator prices. The program also gives farmers not located near the U.S. border the opportunity to pursue similar values at their local elevators, meaning all farmers can choose a daily price, regardless of their location.

- The CWB created a new Producer Payment Option designed specifically for organic farmers. The **Organic Spread Contract (OSC)** lets organic farmers settle a final price spread at the time of sale, rather than waiting for final pool returns. This streamlines the farmer's transaction with the CWB and reduces pricing uncertainty, allowing the farmer to know his or her net return on the day of the sale.

Value

- The CWB is dedicated to advocating for the trading rights of western Canadian farmers. In August 2004, the World Trade Organization (WTO) **dismissed an appeal by the U.S.** of an earlier WTO ruling, which once again determined that the CWB operates on a purely commercial basis.

- **The CWB won a decisive victory** in its long-running battle to protect farmers' trading rights. In June 2005, following a CWB appeal, a NAFTA panel ruled that the U.S. International Trade Commission (ITC) erred in finding that imports of Canadian hard red spring (HRS) wheat injure U.S. wheat farmers. Then, in the resulting remand determination released October 5, 2005, **the ITC reversed its original decision,** thus paving the way for western Canadian wheat farmers to resume unfettered trading with the United States.

- The CWB **supported a $25,000 loan to the Farmer Rail Car Coalition (FRCC),** which has the potential to save farmers millions of dollars. The FRCC negotiated to obtain approximately 12,400 hopper cars owned by the federal government. The CWB loan was in addition to a grant of $85,000 and a previous loan of $50,000, which were used to support FRCC negotiating efforts. Now that the deal has been finalized, both loans are repayable to the CWB. Finalizing the deal gives farmers a major role in grain transportation, the single biggest cost in grain marketing.

Advanced

MyCWB e-newsletter for farmers

- The CWB demonstrated its commitment to leading-edge technology **by launching the electronic *MyCWB* news bulletin,** designed specifically for farmers. Sent directly to farmers' e-mail inboxes, *MyCWB* links directly to key information, including PROs, weather highlights and market analysis, with just a single mouse click. This news bulletin represents another step in expanding the CWB's range of online services, which currently include electronic contracting, as well as viewing cash advance account balances and information online, and conducting repayment scenarios.

- The CWB **provided farmers with better access to the weather information they need** by creating a Quick Maps player designed specifically for farmers who use low-bandwidth dial-up Internet connections. The player offers one-click access to maps that show heat units, weekly precipitation, per-cent-of-normal precipitation, accumulated total precipitation, soil-moisture content and growth-stage development. Specialized maps denoting significant weather and crop events, such as frost and heat stress, are also produced when needed. Farmers view the maps by logging into the secure e-services area of the CWB Web site.

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Trailblazing

- **The Pre-delivery Top-up (PDT) program was expanded** in 2004-05 to include Canada Western Red Spring (CWRS) wheat. The PDT gives farmers access to a greater portion of the value of their grain before delivery, which gives them the opportunity to manage cash flow and pay suppliers.

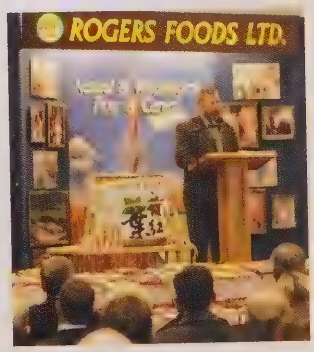
By adding Western Canada's largest wheat class to this program, more farmers are able to access more of their money earlier in the crop year, when they often need it the most.

- The CWB celebrated the **10th anniversary of its Beijing office** during a special event in September 2004. China bought its first wheat shipment from the CWB more than 40 years ago; since that time, the country has purchased more than 120 million tonnes of western Canadian grain. The Beijing office was opened a decade ago to enhance the CWB's ability to provide personal and dedicated customer service to this important market.

Initiative

- The CWB signed a **Memorandum of Agreement with China** for the sale of one million tonnes of milling wheat in 2005-06, representing a value of approximately $250 million. The CWB's trading relationship with this important customer began more than 40 years ago; to date, more than 120 million tonnes of Prairie farmers' grain has been shipped to China. Like the Tokyo office, the CWB maintains a sales office in Beijing, China to provide this valued customer with excellent service.

- The grand opening by Rogers Foods of a $30-million flour mill in Chilliwack, B.C. provided the CWB with another customer for Prairie farmers' high-quality wheat and proves that **value-added production is growing in Western Canada.** Rogers Foods executives consulted with the CWB to discuss the merits of locating the mill in Western Canada. The CWB's excellent customer service and ability to supply the mill with a high-quality, consistent supply of western Canadian grain played a role in the company's decision to locate in British Columbia. The mill produces 250 tonnes of flour each day.



INVENTIVE

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The CWB successfully increased customer demand for specific varieties of western Canadian wheat and barley, through a combination of market development and marketing efforts. More than 100 000 tonnes of the barley variety CDC Copeland were sold to maltsters in Canada and China, up from the 5 000 tonnes sold the previous year. CDC Copeland offers Prairie farmers higher yields, and the increased customer demand for this variety puts more money in farmers' pockets.

More than 650 000 tonnes of Canada Western Hard White Spring (CWHWS) wheat were sold to customers in 22 countries, up from 175 000 tonnes in 2003-04.

Increasing customer acceptance of this variety means western Canadian farmers can compete with Australia and the U.S. for white wheat market share.

Both of these crops were offered through CWB Identity Preserved Contract Programs (IPCPs), which provide farmers with incentives for growing specific varieties. This allows the CWB to create market demand for new varieties of grain and ensures customers have access to wheat and barley that meets their specific needs.

Original

The Value-added Incentive Program (VIP) was created to promote the direct delivery of wheat, durum and malting barley to mills and malting plants in Western Canada. Farmers are paid a premium to deliver eligible grain directly to buyers, which means money that would have been paid to grain companies for carrying costs can now be paid directly to farmers. The VIP also benefits millers and maltsters by allowing them to source the quality and quantity of grain needed to meet processing needs.

The CWB celebrated its **70th anniversary** on July 5, 2005. Since its birth seven decades ago, the CWB has sold over one billion tonnes of grain on behalf of western Canadian farmers. The CWB's single desk has made it possible for Prairie farmers to compete globally with large, multinational grain companies and market their grain to more than 70 countries around the globe. The anniversary will be celebrated with a series of farmer, customer and employee events throughout the 2005-06 crop year.

Notable

- **The Canadian Wheat Board Centre for Grain Storage Research** at the University of Manitoba was officially opened in March 2005. Scientists will use the Centre's technology to conduct research into reducing the effects of insect infestation, mould and excess moisture on stored grain. Prairie farmers and CWB customers will all reap the benefits of the facility as it investigates new ways of preserving the high quality of western Canadian wheat and barley. **The CWB invested $400,000 in the facility** from the Special Account (uncashed farmer cheques). Other investors include the Canadian Foundation for Innovation, the Province of Manitoba and the University of Manitoba.

- The CWB invested $330,000 in **fusarium head blight (FHB) research** through a joint funding venture with the Western Grains Research Foundation (WGRF) and Agriculture and Agri-food Canada (AAFC). Funded through the CWB's Special Account (containing uncashed producer cheques), the investment will be directed toward the operation of a fusarium field nursery at the Brandon Research Centre and toward increased deoxynivalenol (DON) testing of collected samples.

For more detail on these initiatives, visit the CWB's Web site at www.cwb.ca

INVENTIVE

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OPTIONS

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Corporate governance

The following section reviews the CWB's performance highlights, farmer-controlled board of directors, committee structure and senior management.

CWB performance highlights

The CWB's performance is measured in terms of its achievements in four distinct areas: farmer, customer, mandate and corporate.

Farmer

Strategic Goal: To serve farmers' business needs while significantly increasing farmer support for and trust in the CWB.

Initiatives

- Further develop CWB payment options.
- Engage farmers in the development of the CWB's long-term direction.
- Continue development of long-term feed barley marketing strategies.
- Advance commercialization of variety identification technology (VID).
- Implement biotechnology strategy.

Achievements

- Implemented enhancements to the Fixed Price (FPC) and Basis Payment (BPC) contracts, including extension of sign-up and pricing times beyond harvest.
- Implemented further enhancement of the Early Payment Option (EPO) for farmers.
- Allowed for the payment of futures contract gains on FPCs and BPCs to farmers unable to fulfil their contracts due to extreme weather conditions.
- Engaged farmers in discussion regarding the CWB's long-term direction at the Combine to Customer alumni conference in Calgary.
- Implemented structured payment options to attract appropriate timely delivery of feed barley to meet sales opportunities. Moved to shorter pools and utilized Guaranteed Delivery Contracts (GDCs) and country elevator tenders in conjunction with the enhanced Producer Payment Options (PPOs) to improve linkage between sales opportunities and farmer delivery opportunities.
- Undertook an extensive review of VID research, with agreement among CWB, Canadian Grain Commission (CGC), Agriculture and Agri-Food Canada (AAFC) and other partners on a next-stage research plan. An AAFC research project was approved in January 2005 and has commenced.
- Led stakeholder contributions to federal government consultations on regulatory change.
- Developed a long-term strategy to evaluate ongoing biotechnology opportunities including trait development in genetically modified varieties and engaged in market-preparation activities.

GOALS

PERFORMANCE

STRATEGY

ACHIEVEMENT

Customer

Strategic Goal: To attract, develop and retain markets by delivering quality products and service to customers worldwide.

Initiatives

- Brand the CWB.
- Develop and formalize long-term transportation and handling strategies.
- Develop and promote the Canada Western Hard White Spring (CWHWS) wheat class.
- Encourage an increased supply of malting barley to meet projected trade opportunities.
- Enhance management of customer relations.
- Develop food safety and certification traceability programs.
- Review and improve the wheat quality control system to ensure added value.
- Play a key role in variety development.

Achievements

- Developed and approved a brand strategy that speaks to farmers, customers and employees. The strategy is aimed at building a stronger relationship with farmers and creating a brand that promotes farmers' premium products, quality and service to worldwide markets.
- Developed a comprehensive framework for a multi-year logistics strategy to enhance the performance of the CWB supply chain.
- Worked with the CGC and industry to establish CWHWS wheat as an official class with a grade schedule. Developed breeder and research guidelines for future CWHWS varieties; also developed a list of critical research projects designed to improve understanding of CWHWS quality. Pursued and achieved an expanded customer base. Provided samples of Snowbird and Kanata varieties to new potential customers.
- Conducted numerous technical exchange programs for customers.
- Created a limited database of selected/selectable quality for barley tendered to the CWB by grain companies for export and for CWB Identity Preserved Contract Programs (IPCPs).
- Completed a malting barley protein payment verification and administration pilot project.
- Worked with other grain industry partners and the Canadian Grain Commission on the completion and release of a report on the potential use of Rapid Visco Analysis (RVA) technology to predict malting barley germination viability.

Customer (continued)

Strategic Goal: To attract, develop and retain markets by delivering quality products and service to customers worldwide.

Achievements (continued)

- Provided funding to support fusarium head blight (FHB) research and breeding in malting barley.
- Launched the first Master Grower awards program for malting barley.
- Completed a customer survey that indicated high levels of satisfaction among customers for CWB products and services. Survey findings were integrated into the planning process. A Customer Relationship Management (CRM) strategy has been defined, and implementation will begin moving forward in the 2005-06 crop year.
- Completed a report on initial on-farm and post-farm Hazard Analysis Critical Control Points (HACCP)-based pilot projects. Developed an implementation plan for on-farm and post-farm HACCP-based programs, including strategies for encouraging farmer uptake of on-farm certification.
- Completed a strategy to manage the presence of mycotoxins and microflora in grain.
- Developed contingency plans for food-safety-related emergency situations.
- Evaluated alternative grain inspection arrangements for shipments from primary elevators.
- Reviewed primary elevator blending incentives and opportunities to align incentives with quality-control requirements.
- Worked with the Western Grains Research Foundation (WGRF) wheat and barley advisory committees to develop breeding priorities for the next 10 years.
- Conducted a series of consultations with breeders in Western Canada to evaluate current trait development against certain criteria, which may create opportunities for future alliances involving the CWB.
- Participated in the inauguration and became a full-participating member of the National Forum on Seed round table.

DEVELOPMENT

AWARDS

PRESENCE

DEFINING

PLANNING

Mandate

Strategic Goal: To strengthen the long-term CWB mandate at home and its support/acceptability in international trade.

Initiatives

- Leverage the new CWB governance structure and policy developments to build a base of support for a farmer-controlled CWB.
- Strengthen the CWB's position in international trade agreements.

Achievements

- Implemented a government relations strategy that seeks to increase knowledge of the CWB's value proposition with federal and provincial legislators, as well as influence policy decisions at the federal level.
- Completed an advocacy program directed at key World Trade Organization (WTO) member countries, explaining the CWB's objectives in reaching an agriculture agreement.
- Organized a consortium of Canadian agri-food exporters that is pressing the federal government to pursue bilateral trade agreements in key markets.

Corporate

Strategic Goal: To achieve excellence in the provision of human resources, financial operations, information technology and other corporate programs and services that support or advance the CWB.

Initiatives

- Implement information technology solutions to facilitate efficiency, effectiveness and change.
- Develop a comprehensive human resources planning process.
- Undertake a Sarbanes-Oxley North review.

Achievements

- Implemented a business intelligence strategy that improved contract execution and pricing analysis.
- Completed weather maps and content management assessment for e-business.
- Implemented the selective sourcing of information technology services to provide for a lower, more flexible cost model and improved competencies.
- Approved a total compensation framework, which is being implemented in the 2005-06 crop year.
- Developed position-level competencies and assigned these to all CWB jobs, to ensure proper alignment of skills and competencies with organizational priorities.
- Developed a corporate learning and development strategy using the competency model to drive focused and value-added employee development and to support employee recruitment and retention.
- Ensured a detailed succession plan is in place for leadership continuity in key positions.
- Undertook a gap analysis regarding the CWB becoming compliant with the new corporate governance requirements of Canadian Bill 198 and the *U.S. Sarbanes-Oxley Act,* although the CWB is not required to meet these requirements. The results were reported to the Audit, Finance and Risk Committee.

Farmer-controlled board of directors

Farmer-directors are elected by permit holders in 10 electoral districts across Western Canada.

The CWB operates as a shared-governance corporation under *The Canadian Wheat Board Act*. The board consists of 15 members, including 10 prominent farmers elected by their peers, four respected leaders from the business community appointed by the federal government and the Chief Executive Officer (CEO). **This unique board structure was created in 1998 to better focus the CWB on farmers' needs** by placing control of the Corporation directly into farmers' hands.

Farmer-directors are elected by permit holders in 10 electoral districts across Western Canada. To ensure continuity on the board, these directors have four-year terms and elections are held every two years, alternating between odd- and even-numbered districts. The 2004 elections were held in districts 2, 4, 6, 8 and 10. A new director was elected in district 10, while incumbent directors were re-elected in the remaining districts.

Prior to the government's appointment of directors, the CWB advises the Minister responsible for the Canadian Wheat Board about its future business requirements to ensure appropriate appointments are made. Appointed directors hold three-year terms. The CEO is appointed based on a recommendation from the board of directors.

1. Allen Oberg (District 5)

Allen and his brother, John, run a grain and cattle operation near Forestburg, Alberta. Allen has served on the boards of numerous organizations throughout his career, including Alberta Wheat Pool, Agricore and the Canadian Cooperative Association.

2. William Cheuk (Appointed)*

William is president of Vancouver-based South Alder Greenhouses Ltd. and Vision Envirotech International Ltd., as well as vice-president of Emerge Venture Capital Inc. He has a bachelor of business administration degree, majoring in accounting, from Simon Fraser University, as well as bachelor and doctorate degrees in chemical and biological engineering from the University of British Columbia. He has led numerous trade missions to Asia and has experience with international trade-dispute resolution.

3. Bill Toews (District 10)

Bill and his wife, Barbara, operate Harambee Farms, a grain and special crops farm at Kane, Manitoba. Bill has a degree in agriculture and a post-graduate degree in soil science. He has served as a director for Keystone Agricultural Producers, the Western Grains Research Foundation and the Manitoba Farm Products Marketing Council. Bill worked in Kenya and Pakistan with the Canadian International Development Agency. He is currently serving on the Manitoba Agri-food Research and Development Council, as well as on a local credit union board.

4. Lynne Pearson (Appointed)

Lynne is dean of the College of Commerce at the University of Saskatchewan and was past chair of the Canadian Standards Association. She has held senior positions with several public and private sector organizations and has served on numerous boards. Lynne holds bachelor's and master's degrees in arts and a bachelor's degree in journalism.

5. Rod Flaman (District 8)

Rod and his wife, Jeanne, farm just south of the Qu'Appelle Valley near Edenwold, Saskatchewan. They produce a variety of field and horticultural crops, including certified organic grain. Educated at the University of Saskatchewan, Rod has served as a director of Terminal 22 at Balcarres, Saskatchewan and the Saskatchewan Fruit Growers Association.

6. Larry Hill (District 3)

Larry farms 4,300 acres near Swift Current, Saskatchewan. He is a graduate of both agricultural engineering and farm business management at the University of Saskatchewan and has worked for Saskatchewan Agriculture. Since 2002, he has chaired the Audit, Finance and Risk Committee. He also serves as chair of the Ad Hoc Trade Committee.

7. Adrian Measner

President and Chief Executive Officer (Appointed)

Raised on a farm near Holdfast, Saskatchewan, Adrian was educated at the University of Saskatchewan. He has 30 years of experience in the grain industry and has held a variety of positions at the CWB. He was also previously involved in a small grain farm north of Winnipeg, Manitoba.

8. James Chatenay (District 2)

Jim operates a family farm near Penhold, Alberta. He is a graduate of Olds Agricultural College and served six years as director of the Alberta Charolais Association.

9. Ross Keith (Appointed)

Ross is the president of a third-generation family farming operation in southern Saskatchewan. He is also president of the Nicor Group property development company and is a former partner in the Regina law firm of MacLean-Keith. He has degrees from the University of Saskatchewan in arts, commerce and law.

10. Dwayne Anderson (District 7)

Dwayne and his wife, Sheila, operate a 2,900-acre farm in the Fosston-Rose Valley area of Saskatchewan. He served 10 years as president and chief executive officer of North East Terminal Ltd., a farmer-owned inland grain terminal and crop input business. Dwayne was also founding chair of the Inland Terminal Association of Canada.

11. Ken Ritter Chair (District 4)

Ken has been the chair of the CWB's board of directors since its inception, and has served on both the National Transportation Agency and the Saskatchewan Surface Rights Arbitration Board. He operates a family farm near Kindersley, Saskatchewan. In addition to farming, he has practiced law and taught school in both Canada and Australia.

12. Bonnie DuPont (Appointed)

A group vice-president at Calgary's Enbridge Inc., Bonnie has expertise in energy transportation and grain handling, and has held senior positions with Alberta Wheat Pool and Saskatchewan Wheat Pool. She continues to provide executive leadership at Enbridge in the areas of corporate governance and human resources management. She holds a bachelor's degree in social work from the University of Regina, with majors in program administration and evaluation and psychology and a master's degree in human resources management from the University of Calgary. She has served as chair of the Governance and Management Resources Committee since 2002.

13. William Nicholson (District 9)

Bill and his family operate a 4,800-acre grain farm near Shoal Lake, Manitoba. Bill has a degree in agricultural engineering and has worked in the farm machinery industry. In addition to serving on the former CWB Advisory Committee, Bill has been a Manitoba Pool delegate, represented farmers on the Prairie Agricultural Machinery Institute Council and is president of his local credit union board. He has served as chair of the board's Strategic Issues Committee since 2003.

14. Ian McCreary (District 6)

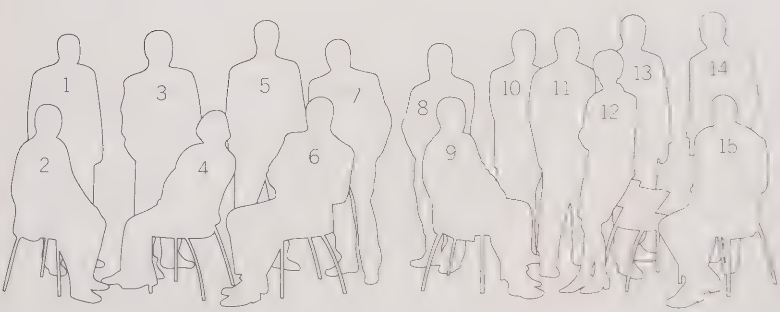
Ian was raised on the mixed farm near Bladworth, Saskatchewan he operates today. He holds a master's degree in agricultural economics and has previously worked at the CWB as a marketing manager and policy analyst. Ian has served as chair of the Farmer Relations Committee for the past two years and previously chaired the Strategic Issues Committee. His international experience includes managing a pilot project on food aid and food markets for the Canadian Foodgrains Bank, which included nine projects through Asia, Africa and Latin America.

15. Art Macklin (District 1)

Art, along with his wife and son, operates a 1,600-acre grain and cattle farm northeast of Grande Prairie, Alberta. Art is active in both church and community, is a past president of the National Farmers Union and served as chair of the former CWB Advisory Committee.

* William Cheuk was appointed to the board on May 5, 2005.

Note: Edward Zinger served on the board from February 5, 2002 to February 5, 2005.



Mandate

The board of directors is responsible for establishing overall strategic direction and reviewing and approving strategic plans, budgets, financial statements, the annual business plan and the borrowing plan. The board also ensures management has appropriate systems in place to manage risk, maintain the integrity of financial controls and oversee information services.

This year, when considering strategic direction, the board thoroughly examined the CWB's ability to maintain its competitive advantage into the future. The directors formulated a sustainable vision for an innovative and forward-looking CWB. Semi-annual planning sessions were held in January and July to consider the CWB's evolution and to ensure its alignment with the business plan and long-term plan.

In addition to the annual business plan, the marketing, communications and government relations plans are board-approved vehicles that enable the directors to evaluate management's progress against set business objectives.

Achievements

During the 2004-05 crop year, the board took significant strides to position the CWB as a leader in the international grain industry. These included:

- **Strategic planning –** To prepare for the possibility of a trading environment without government borrowing and initial payment guarantees, the board reviewed the corporate direction to ensure that the CWB is positioned for the future. A corporate branding plan was also approved to build stronger relationships with farmers and maximize the value of CWB customer service, products and quality. The board approved the establishment of an Ottawa office to enhance the profile of the CWB among elected officials, civil servants, national farm organizations and industry.
- **Accountability –** The board approved the implementation of high-level corporate performance measures to ensure the organization is positioned to fulfil its business goals. To demonstrate the CWB's commitment to integrity, the board approved both a whistleblower policy and an organization-wide code of conduct. The directors also hosted and attended a number of events, including a Combine to Customer alumni conference, farm-leader meetings, district meetings and provincial Corporate Accountability Meetings, all to ensure accurate and transparent communication with farmers. Each event was an opportunity to hear the views of western Canadian farmers.
- **Innovation –** To be more responsive to the needs of western Canadian farmers, the directors supported the development of a new cash-pricing option for wheat and approved an early payment option specific to feed wheat. The board approved the offer of a designated barley basis program and a Value-added Incentive Program (VIP). In addition, the board reviewed and approved an Organic Spread Contract and approved a malting barley protein payment program. The latter two initiatives will be available in the 2005-06 crop year.
- **Research and development –** The board approved the dedication of funds to fusarium research at the Agriculture and Agri-Food Canada Brandon Research Centre, to the University of Alberta Agri-Food Discovery Place and to the Saskatchewan Agrivision Corporation. In addition, the CWB contributed to The Canadian Wheat Board Centre for Grain Storage Research at the University of Manitoba.
- **Advocacy –** The board ensured that CWB interests were fully represented at WTO negotiations. The board approved the implementation of a strategy to foster better relations with the U.S. and improve U.S. understanding of CWB operations. As transportation legislation was being developed, the board ensured that the federal government was aware of the effects proposed changes under Bill C-44 would have on western Canadian farmers.
- **People –** Keeping in mind the need to be both competitive and sustainable, the board reviewed the Corporation's overall approach to compensation. To improve the working environment experienced by CWB employees, substantial building renovations were also approved by the board. The board also ensured that employees had input into staff issues through a comprehensive employee survey.

Leading by example...

With the exception of the president and CEO, all of the directors on the board are independent of management. The board has the following controls and policies in place to demonstrate the CWB's commitment to good governance:

1. An approved code of conduct and set of conflict-of-interest guidelines.
2. Annual conflict-of-interest declarations for all directors.
3. A list of significant policies developed and approved by the board that guide corporate conduct.
4. Candidate conflict-of-interest disclosure statements, which are required for prospective elected directors.
5. Regulations that require director candidates to undertake in writing that, if elected as directors, they will terminate any positions they hold as directors, employees or officers of a grain company or as an employee or officer of, or as a professional consultant to the CWB, a grain company, the Government of Canada or a province.
6. Up-to-date terms of reference for the board of directors, which establish the mandate and responsibilities of the board.
7. Up-to-date terms of reference, which describe the duties of the chair of the board, the CEO, each committee and individual directors.
8. A comprehensive orientation, which is provided for each new director.

RESEARCH

POLICIES

APPROVAL

POSITION

COMMITMENT

9. Continuing professional development opportunities for directors that are provided at the Director's College and through ongoing financial-awareness modules and board education sessions.
10. A process to determine the competencies and skills the board should have and identify any gaps.
11. Regular evaluations of the board's effectiveness, as well as the effectiveness and contribution of each board committee and each individual director. The use of peer assessments was approved in 2004-05 for implementation in 2005-06.
12. A succession plan, which is monitored by the board to ensure that a pool of talent is available and being developed to fill key senior management positions.
13. An in-camera session that is held at each board meeting without management present.
14. An in-camera session that is held at each audit committee meeting with the head of Corporate Audit Services.
15. A policy stating that the CEO is not eligible to be chair of the board.
16. A policy that allows directors to engage the services of an outside advisor with the authorization of the chair of the board.
17. Internal controls that have been assessed and continue to be monitored to ensure integrity and accountability. As part of strategic planning, the board annually reviews and supplements an integrated risk-management summary that identifies and measures external risks and opportunities.

Committee structure

The board of directors has four standing committees. In 2004-05, there was also an Ad Hoc Trade Committee, reflecting the significance of international trade issues during this time.

Audit, Finance and Risk Committee

Mandate – Primary responsibilities include the review of financial reporting, accounting systems, risk management and internal controls. It facilitates the conduct of an annual audit, assesses performance measures, reviews annual financial statements and accounting practices, and reviews financial/business risk policies, plans and proposals.

Members – Larry Hill (chair), William Cheuk, Bonnie DuPont, Ian McCreary, Allen Oberg and Lynne Pearson.

Governance and Management Resources Committee

Mandate – Focuses on governance to enhance board and organizational effectiveness. It also assists the board in fulfilling its obligations related to human resources and compensation matters.

Members – Bonnie DuPont (chair), Dwayne Anderson, James Chatenay, William Cheuk, Rod Flaman and Bill Nicholson.

Strategic Issues Committee

Mandate – Ensures that strategic and policy issues are identified and that priorities, time frames and processes to address these issues are recommended to the board. It coordinates the board's input to the CWB's strategic planning process.

Members – Bill Nicholson (chair), Dwayne Anderson, James Chatenay, Rod Flaman, Ross Keith, Art Macklin and Bill Toews.

Farmer Relations Committee

Mandate – Reviews and recommends to the board strategic plans for farmer relations, communications and government relations.

Members – Ian McCreary (chair), Larry Hill, Ross Keith, Art Macklin, Allen Oberg, Lynne Pearson and Bill Toews.

Ad Hoc Trade Committee

Mandate – Reviews and recommends strategies on trade-related issues that could affect the CWB's ability to fulfil its mandate.

Members – Larry Hill (chair), Rod Flaman, Art Macklin, Ian McCreary, Bill Nicholson and Ross Keith.

Compensation table and meetings attended, 2004-05 crop year

Board of directors

		Remuneration			Attendance		
Director	District	Retainer	Per diems	Total	Board meetings	Committee meetings	Industry meetings
Arthur Macklin	1	$ 20,000.00	$ 38,150.00	$ 58,150.00	11	23	40
James Chatenay	2	20,000.00	30,250.00	50,250.00	11	19	18
Larry Hill	3	28,000.00	51,250.00	79,250.00	11	25	48
Ken Ritter	4	60,000.00	42,750.00	102,750.00	11	35	43
Allen Oberg	5	20,000.00	30,000.00	50,000.00	11	21	21
Ian McCreary	6	24,000.00	31,800.00	55,800.00	11	25	34
Dwayne Anderson	7	20,000.00	29,750.00	49,750.00	11	18	31
Rod Flaman	8	20,000.00	29,900.00	49,900.00	11	21	32
William Nicholson	9	24,000.00	31,000.00	55,000.00	11	26	45
William Toews	10	11,666.67	16,000.00	27,666.67	7	12	26
Wilfred Harder	10	8,333.33	8,250.00	16,583.33	4	5	5
William Cheuk	A	5,000.00	5,000.00	10,000.00	4	5	2
Bonnie DuPont	A	20,000.00	13,500.00	33,500.00	11	24	7
Ross Keith	A	20,000.00	17,750.00	37,750.00	11	27	7
Adrian Measner	A	N/A	N/A	N/A	11	N/A	N/A
Lynne Pearson	A	20,000.00	10,825.00	30,825.00	9	18	3
Edward Zinger	A	10,000.00	10,000.00	20,000.00	5	10	5
Total:		**$ 331,000.00**	**$ 396,175.00**	**$ 727,175.00**			

Notes:

A = Appointed

Directors are paid an annual retainer and per diem allowances. The board chair receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $4,000 per committee chaired. A per diem of $500 per full regular meeting day is paid to each member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for directors and $100,000 for the board chair. During 2004-05, the board approved compensation in excess of the limit for Ken Ritter and Larry Hill for additional duties undertaken in relation to trade and other issues. Directors do not participate in any corporate pension plan nor any corporate benefit plan, with the exception of travel accident and travel medical insurance.

Senior management

At the time of writing this report, the president and CEO had announced a restructuring of senior management, which resulted in the creation of a smaller leadership team. The results of the new structure will be reported in the 2005-06 annual report.

The senior management team works in partnership with the board of directors to establish and implement the CWB's vision and mission. The team provides leadership to the CWB, driving the successful implementation of the annual and long-term plans of the organization.

The senior management team is comprised of the executive team, the vice-presidents, the director of Product Development and Marketing Support, general counsel and the corporate secretary. During this crop year there was one vice-president position eliminated in Finance and the vice-president, Logistics vacancy in Operations was filled.

Senior management compensation

	2004-05 actual	2003-04 actual
Salaries	$ 2,608,635	$ 2,454,359
Benefits	1,015,783	1,289,855
Total	**$ 3,624,418**	$ 3,744,214

Executive team

Adrian Measner
President & CEO

Ward Weisensel
Chief Operating Officer

Gordon Menzie
Chief Financial Officer[1]

Margaret Redmond
Executive Vice-President, Corporate Services

Laurel Repski
Vice-President, Human Resources

Senior management

Deanna Allen
Vice-President, Corporate Communications

Graham Paul
Chief Information Officer

Deborah Harri
Corporate Secretary

Victor Jarjour
Vice-President, Strategic Planning and Corporate Policy

Brita Chell
Corporate Controller

Jim McLandress
General Counsel

Wendi Thiessen
Treasurer

William Spafford
Vice-President, Marketing

Earl Geddes
Vice-President, Farmer Relations and Operations

Gord Flaten
Director, Product Development and Marketing Support

Dale Martin
Vice-President, Logistics

[1] As a result of corporate restructuring, Brita Chell has been appointed Chief Financial Officer, effective October 13, 2005.

The senior management team works in partnership with the board of directors to establish and implement the CWB's vision and mission.

Senior management is compensated in accordance with policies approved by the board of directors. In keeping with the *CWB Information Policy* and in a desire to be open and accountable to farmers, the following table sets forth compensation earned by the president and chief executive officer, as well as the three other highest-paid senior officers for the year ended July 31, 2005.

Summary compensation table, 2004-05

Name and principal position[3]	Annual compensation	
	Salary[2]	All other compensation[1]
Adrian Measner President & Chief Executive Office	$ 260,000	–
Ward Weisensel Chief Operating Officer	$ 213,200	–
William Spafford Vice-President, Marketing	$ 193,946	–
Margaret Redmond Executive Vice-President, Corporate Services	$ 181,229	–

Notes:

[1] The CWB has no additional compensation plans beyond base salary. The value of perquisites for each senior officer did not exceed the lesser of $50,000 or 10 per cent of total annual salary.

[2] Reflects salary as of July 31, 2005.

[3] The table reflects four of the top five senior officer salaries for 2004-05, as one individual has withdrawn permission to publish salary information

Management discussion and analysis

The CWB is a farmer-directed marketing organization that sells four crops on behalf of western Canadian farmers. These are wheat, durum wheat, designated barley and feed barley. Revenue generated from the sale of these four crops (less marketing expenses) is pooled by crop throughout the year and returned to farmers based on deliveries. The following discussion reviews the CWB's supply situation, the global marketing environment, marketing strategy and results for the 2004-05 crop year. The CWB's indirect income and expenses, Producer Payment Options (PPOs), credit sales, funding and commodity and financial risk-management activities are also reviewed. The Financial Statements and accompanying Notes follow.

General crop conditions

Although near-record yields were achieved in the 2004-05 growing season, the grade pattern of the wheat and barley crop was the lowest since the early 1990s. The lower-grade pattern was mainly caused by a severe frost in August and above-normal precipitation in September.

The 2004-05 growing season was one of the coldest on record in the eastern Prairies. Development was generally two-to-three weeks behind normal at the end of June, the result of cool conditions and some planting delays. Warmer temperatures improved crop development in the month of July, while rainfall for that period was close to normal across the Prairies. The combination of moderate temperatures and adequate moisture resulted in above-average yield potential. Temperatures in August dropped to below-normal levels, which continued to delay crop development. Freezing temperatures during the third week of August caused significant damage to immature crops in parts of Saskatchewan and Manitoba. Persistent rains in late August and early September delayed harvest progress across the Prairie region, which further reduced the average quality of wheat and barley crops. However, drier, milder weather in late September and early October resulted in rapid harvest progress; over 80 per cent of the crop was harvested by the middle of October, about three weeks behind normal. Harvesting continued into the month of November, but some crops were left unharvested in northern Saskatchewan, northern Alberta and southeastern Manitoba.

Despite the difficulties with the 2004-05 harvest, wheat and barley production was above average. Total wheat production for Western Canada reached 24 million tonnes; spring wheat production accounted for 18 million tonnes of the total. Durum production reached nearly five million tonnes, while barley production climbed to just over 12 million tonnes. The overall crop quality was poor, with most of the spring wheat crop falling into the lower three grades. The production of barley suitable for malt was also significantly reduced, due to adverse weather conditions.

The wheat pool

	2004-05	2003-04
Receipts (tonnes)	13 296 295	12 375 988
Revenue (per tonne)	$ 190.55	$ 226.91
Direct costs	20.08	21.16
Net revenue from operations	170.47	205.75
Other income	8.29	7.89
Net interest earnings	2.95	3.22
Administrative expenses	(3.57)	(3.67)
Grain industry organizations	(0.08)	(0.10)
Earnings distributed	$ 178.06	$ 213.09

The marketing environment

Western Canadian wheat returns were pressured lower in 2004-05, due to the combined effects of larger world wheat supplies and a stronger Canadian dollar in comparison to the U.S. dollar. World wheat production reached a record 620 million tonnes in 2004-05, up from 554 million tonnes in 2003-04. World ending stocks rose from 132 million tonnes in 2003-04 to just over 143 million tonnes in 2004-05. Dramatic production recoveries were realized in the European Union-25 (EU-25), where production was up 30 million tonnes to a record 136 million tonnes. Production was also up in major Commonwealth of Independent States (CIS) countries (i.e. Russia, Kazakhstan and Ukraine) by 46 per cent over 2003-04 levels, to just over 71 million tonnes (a year-on-year increase of 22 million tonnes). These dramatic production-level increases were equal to two years of Canadian wheat production, or 50 per cent of the world wheat trade. Burdensome supplies from the EU-25 and CIS brought significant price pressure to the mid-to-lower class segment of the wheat market. European Union (EU) French wheat prices collapsed, dropping over $35 US per tonne in 2004-05. Southern-hemisphere wheat supplies were healthy, as Australia and Argentina combined produced 36 million tonnes (down slightly from 40 million tonnes in 2003-04).

China continued to be a significant player in 2004-05, and the CWB was able to secure a solid share of the high-quality segment of this market. Wheat demand in Canada rose slightly in 2004-05, partly due to the declining popularity of the Atkins Diet in North America. Global supplies of high-grade milling wheat declined in 2004-05 versus 2003-04, as the U.S. experienced a wet harvest of Hard Red Winter (HRW) wheat and a delayed harvest for Dark Northern Spring (DNS) wheat. In addition, the grade profile of the Canadian crop declined significantly, due to an early frost and a rainy harvest period. World prices for high-grade milling wheat stayed flat, as mills incorporated a higher percentage of lower-grade wheat into the grist and suppliers drew down high-quality stocks from the previous year.

The strategy

One way the CWB manages marketing risks and price volatility is to price grain throughout the year. By marketing grain on a continuous basis, the CWB is also able to match logistical constraints with producer delivery requirements and customer buying patterns. The CWB employs an integrated approach to sales and risk management for the wheat pool, resulting in pricing that encompasses the entire period from the time the crop is seeded, through to the following harvest. This approach also allows for the flexibility to take advantage of periodic market opportunities.

The essence of the CWB's marketing strategy is constant from year to year and is designed to select a customer mix that will maximize revenue, subject to logistical, market and crop conditions. Marketing the 2004-05 crop to the best advantage required a multi-pronged approach. The first prong focused on targeting the limited supplies of high-grade and protein to maintain market share in key premium markets, which is fundamental to maximizing farmer returns. The second and most critical tactic focused on expanding marketing volumes into the lesser quality demand segments, so that customer requirements tightly matched the quality parameters of the much larger-than-usual supply of milling wheat falling into the middle and lower grades. The final approach focused on feed wheat. Maintaining fluid movements for this grade allowed the CWB to market the significant volumes produced by the August frost and wet harvest conditions to both milling and feed grain markets.

The deliveries

Delivery opportunities for wheat varied depending on the grade and class. All of the wheat committed to the Series A, B and C contracts was accepted, with most of the A series wheat being called before the end of December.

Since the volume of high-protein No. 1 Canada Western Red Spring (CWRS) wheat was limited, delivery calls on this grade and protein were spaced throughout the year, to ensure a consistent supply for premium markets. By mid-December, delivery calls were in place for 60 per cent of all grades of CWRS. These calls were generally followed by contract terminations in an effort to encourage CWRS deliveries into the system throughout the year. By the end of January, 100 per cent of Series A contracts had been called, to support increased marketing efforts on Canada Western Feed Wheat (CWFW). Early calls and terminations were seen on Canada Western Extra Strong (CWES) wheat and Canada Prairie Spring White (CPSW) wheat, with at least 75 per cent of Series A contracts called in October, in order to acquire sufficient quantities at port for sale. Calls on Series A Canada Prairie Spring Red (CPSR) wheat were later than usual, reflecting greater-than-expected supplies and lower demand earlier in the crop year. Early movement was seen for Canada Western Red Winter (CWRW) wheat, with 75 per cent of Series A contracts called in October.

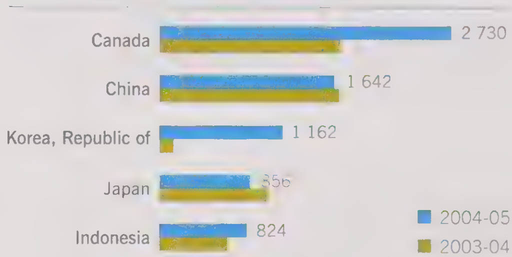
As usual, calls for Canada Western Soft White Spring (CWSWS) wheat deliveries were spread evenly throughout the year, reflecting domestic demand.

In spite of an aggressive approach to delivery calls and terminations, market conditions for the quality of the crop resulted in a slower pace of deliveries compared to previous crop years.

Deliveries of all non-durum wheat totalled 13.3 million tonnes, an increase from 12.4 million tonnes the year before.

Largest volume wheat customers

(2004-05 and 2003-04 sales in 000's tonnes)



The results

Offshore customers purchased 10.61 million tonnes of wheat in 2004-05, equivalent to the amount purchased in 2003-04. For the second consecutive year, the CWB's largest single export customer for wheat was China, which maintained its strong demand for high-quality milling wheat. China purchased 1.64 million tonnes in 2004-05, compared to 1.69 million tonnes in 2003-04. The domestic market purchased 2.73 million tonnes of non-durum wheat in 2004-05, up from 1.69 million tonnes in 2003-04. Japanese purchases decreased in 2004-05 to 856 000 tonnes, versus 1.01 million tonnes in 2003-04. With the sharp increase in CWFW supplies, exports of feed wheat to the Republic of Korea (ROK) rose sharply, from 135 000 tonnes to 1.16 million tonnes, while demand for high-grade milling wheat in that market remained relatively steady. Indonesian purchases rose to 824 000 tonnes, compared to 637 000 tonnes in 2003-04, while the sharp reduction in high-grade, high-protein milling wheat availability reduced sales to the Philippines from 705 000 tonnes to just

237 000 tonnes. Mexican imports in 2004-05 totalled 664 000 tonnes, down slightly from 682 000 tonnes in 2003-04.

The wheat pool returned just over $2.53 billion in gross revenues on 13.3 million tonnes of receipts, or an average gross revenue of $190.55 per tonne, down from the average of $226.91 per tonne the previous year. The dramatic shift in the grade profile due to poor weather during the growing season and harvest, combined with the relative strength of the Canadian dollar versus the U.S. dollar, were two major factors that contributed to the decline in overall returns. However, limited supplies of high-grade, high-protein North American milling wheat, combined with constrained U.S. freight logistics, contributed to much of the strength of final pool returns for high-grade, high-protein milling wheat. The final pool return for No. 1 CWRS with 13.5 per cent protein (net of all costs) was $205 per tonne in store Vancouver/St. Lawrence, compared to $211 per tonne a year ago. The protein spread between 11.5 per cent and 13.5 per cent protein was $15 per tonne, compared to $5 per tonne the previous year, due to the limited supplies of high-protein North American milling wheat, combined with an abundance of lower-grade milling wheat supplies globally. Final pool returns for Nos. 3 CWRS and CPSR fell approximately $27 per tonne compared to a year ago, to end at $166 per tonne and $157 per tonne, respectively.

Direct costs

Direct costs decreased $1.08 per tonne to $20.08, primarily due to lower freight offset by cost increases for inventory storage, other grain purchases and other direct expenses. More specifically:

- Continuing U.S. tariffs against wheat exports, which created a lower U.S. export program compared to prior years, resulting in overall lower U.S. rail-freight costs, despite the fact that freight rates on a per-tonne basis were higher during the year. Overall freight costs were lower, due also to decreased sales volume through the eastern ports.
- Inventory storage costs increased primarily in terminal position resulting from higher stocks and higher storage rates.
- Increases in other grain purchases reflect the higher level of late receipts accepted in 2004-05.
- An increase in other direct expenses due to higher demurrage resulting from increased challenges with the late harvest, rail performance issues, and in securing quality grain, as well as loading rate increases. (The increases in wheat costs were offset by decreases in costs for the other pools with the net effect for all pools being a demurrage cost of $791.)
- In addition, higher premiums were paid in varietal seed programs in 2004-05.

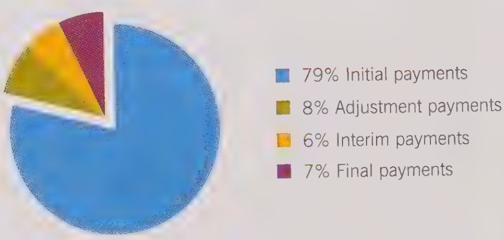
Distribution of earnings

The average sales proceeds available for distribution decreased 16 per cent or $35.03 per tonne to $178.06. Of the amounts returned to pool participants, 87 per cent was distributed by May 25, 2005 in the form of initial and adjustment payments. A further six per cent, or $10.51 per tonne, was distributed as an interim payment on October 25, 2005.

Producer Payment Options (PPOs), like the Fixed Price Contract (FPC) and Basis Payment Contract (BPC), are designed to operate independently of the pool and therefore do not impact the pools' net results. Just under $225 million of sales returns were paid from the wheat pool to the PPO program, representing the return on the specific grades and classes of wheat delivered under the FPC and BPC programs. The PPOs in turn paid farmers at the respective contracted price.

Earnings distributed to farmers

Wheat 2004-05



The durum pool

	2004-05	2003-04
Receipts (tonnes)	3 823 967	3 079 664
Revenue (per tonne)	$ 216.37	$ 250.46
Direct costs	28.33	25.69
Net revenue from operations	188.04	224.77
Other income	4.23	4.99
Net interest earnings	1.97	2.79
Administrative expenses	(3.57)	(3.67)
Grain industry organizations	(0.08)	(0.10)
Earnings distributed	$ 190.59	$ 228.78

The marketing environment

Western Canadian durum returns declined in 2004-05, due to rising global durum supplies and a stronger Canadian dollar. Global durum production set back-to-back production records, with 2004-05 world durum production reaching 39.8 million tonnes (up 2.2 million tonnes over the 2003-04 record). Global durum stocks virtually doubled, rising from 3.3 million tonnes in 2003-04 to 6.4 million tonnes in 2004-05. Rising durum supplies in both the key Mediterranean-demand basin and dominant North American exporting region put pressure on global durum prices. This increase in supplies led to a decline in 2004-05 Spanish durum prices of $23 US per tonne.

The Mediterranean-demand region saw local durum supplies rise over three million tonnes, as the European Union-25 (EU-25) posted a record durum crop of 11.6 million tonnes, and North Africa produced another large durum crop of 5.5 million tonnes. North America saw durum production increase from 6.9 million tonnes in 2003-04 to 7.4 million tonnes in 2004-05. Significantly higher internal production reduced demand for durum imports in both North Africa and Europe in 2004-05.

The strategy

The durum crop experienced frost and wet harvest conditions similar to spring wheat, resulting in a below-average grade pattern, with No. 3 Canada Western Amber Durum (CWAD) wheat making up the majority of supply. The crop was also the largest since 2000-01, with production reaching nearly five million tonnes. The durum pool required marketing strategies similar to the wheat pool. The limited stocks of No. 1 CWAD were stretched to maintain supply to premium markets. However, as the marketing year progressed, the CWB had to negotiate with a number of these buyers to accept No. 2 in place of No. 1 CWAD. As with wheat, there were significant volumes of feed grade durum harvested and the CWB successfully engaged customers for this grain. The biggest challenge and primary focus of CWB marketing efforts was to maximize marketings and market share in segments demanding Nos. 3 and 4 CWAD, in order to market the large crop.

The deliveries

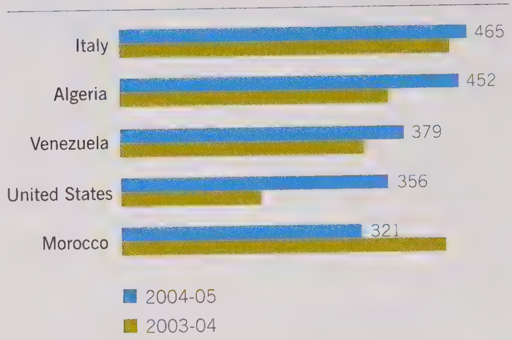
Poor harvest conditions resulted in the majority of the crop grading No. 3 CWAD, with very little of the crop grading No. 1. Durum acceptance varied by contract series and market potential. Sixty per cent of all grades of durum committed on Series A contracts were accepted.

All of the No. 1 CWAD offered on Series B contracts were accepted, reflecting the tight supply and strong demand for high-grade durum. Stronger-than-expected movement opportunities later in the crop year resulted in 20 per cent contract acceptance on Series C contracts for Nos. 2 and 3 CWAD, and 100 per cent on Nos. 1, 4 and 5 CWAD. Delivery opportunities were generally spaced evenly throughout the crop year.

Total deliveries to the durum pool were 3.82 million tonnes, up from 3.08 million tonnes the previous year. In total, the CWB accepted 74 per cent of the total durum offered on farmer contracts.

Largest volume durum customers

(2004-05 and 2003-04 sales in 000's tonnes)



The results

Offshore markets accounted for 3.56 million tonnes of durum sales for the year, compared to 2.87 million tonnes in 2003-04. While demand in North Africa was below average due to a second consecutive year of above-average production, Italy became the single largest export durum customer, accounting for 465 000 tonnes of sales, while Algeria accounted for 452 000 tonnes. The third-largest export durum customer was Venezuela, accounting for 379 000 tonnes of sales. Sales to U.S. customers rose two-fold, to 356 000 tonnes, largely as a result of the U.S. International Trade Commission's (ITC) ruling in September 2004 that removed the tariffs on Canadian durum wheat exports to the United States. Export sales to Morocco were 321 000 tonnes, down from 455 000 tonnes in 2003-04, as supplies of high-grade durum were insufficient to maximize sales to this high-quality market. Sales of durum to the domestic market rose to 320 000 tonnes.

The durum pool returned just over $827.39 million in gross revenues on 3.82 million tonnes of receipts, or an average of $216.37 per tonne, down from the average of $250.46 per tonne the previous year. Final pool returns for No. 1 CWAD wheat with 13 per cent protein fell from $228 per tonne in store Vancouver/St. Lawrence to $214 per tonne, driven by the strength of the Canadian dollar and the large increase in global durum production and high stock levels. The pronounced decline in average western Canadian durum protein content levels and the concurrent tightening of high-protein durum supplies caused the protein spread between 11.5 per cent and 13 per cent to widen to $13 per tonne, compared to almost $4 per tonne a year ago. The final pool return for No. 3 CWAD wheat declined $33 per tonne to $176 per tonne, due to the large increase in the global production of mid-grade durum.

Direct costs

Direct costs increased by $2.64 per tonne to $28.33, due primarily to higher freight costs, terminal handling and grain purchases, offset by an increase in the income effect of inventory adjustment demotions. More specifically:

- Freight costs were higher due to increases in shipments through eastern ports.
- Increased terminal handling, the result of larger pool receipts and a larger proportion of these tonnes moving out of export position.
- Higher levels of grain purchases were made for the 2004-05 crop year, the result of a large volume of producer receipts received subsequent to the 2003-04 crop year's end date and accepted in the 2004-05 year, combined with larger overages reported by grain companies.
- A net demotion of durum stocks reporting during the year. Grain companies were paying for higher grading on deliveries than they received on shipment of the stock, which then led to significant grade demotions. Grade demotions were reported predominantly on No. 1 CWAD wheat.

Other income

The net decrease is primarily attributed to a reduction of overdue charges on late shipments of grain compared to 2003-04, which had experienced a severe short supply of dry-bulk freight, resulting in the late calling of grain by accredited exporters.

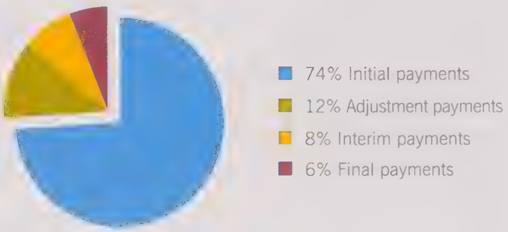
Distribution of earnings

The average sales proceeds available for distribution decreased 17 per cent or $38.19 per tonne to $190.59. Of the amounts returned to pool participants, 86 per cent was distributed by May 25, 2005 in the form of initial and adjustment payments. A further eight per cent, or $14.18 per tonne, was distributed as an interim payment on October 25, 2005.

For producer receipts delivered under the Fixed Price Contract (FPC) program, $84,582 was paid from the pool to the program, representing the final pool return on the specific grades delivered to the durum pool under the FPC program. The payment options program in turn paid farmers at the respective contracted price.

Earnings distributed to farmers

Durum 2004-05



The designated barley pool

		2004-05		2003-04
Receipts (tonnes)		**1 752 501**		**2 138 365**
Revenue (per tonne)	$	**177.30**	$	191.24
Direct costs		**15.09**		9.48
Net revenue from operations		**162.21**		181.76
Other income		**20.02**		22.25
Net interest earnings		**1.05**		0.84
Administrative expenses		**(3.57)**		(3.67)
Grain industry organizations		**(0.13)**		(0.13)
Earnings distributed	$	**179.58**	$	201.05

The marketing environment

Western Canadian malting barley returns declined in 2004-05 on the backs of larger supplies in Australia, lower U.S. demand and a rising Canadian dollar. Australia increased its malting barley exports 23 per cent in 2004-05. A reduction in the incidence of Fusarium Head Blight south of the border led to a rise in U.S. malting barley supplies in 2004-05. The rise in local supplies caused U.S. demand for Canadian malting barley to decline markedly in 2004-05, dropping 215 000 tonnes or 53 per cent. These supply factors, combined with a poor harvest in Western Canada, led to a difficult marketing environment for malting barley. One bright spot in the 2004-05 environment was a 34 per cent rise in Chinese demand for malting barley.

The strategy

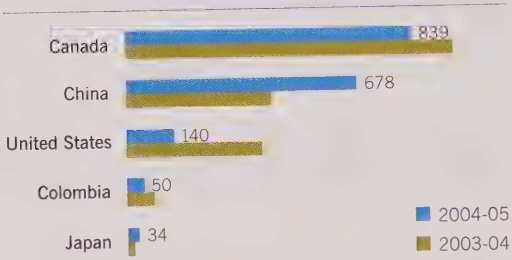
The difficult conditions during harvest resulted in reduced volumes of barley that met malting standards and a correspondingly lower pool size. With a smaller crop, the CWB strategy was to allocate limited supplies to critical higher return customers while moving the crop relatively earlier in the year to avoid potential problems that could result from longer storage. High and volatile rates for ocean freight continued to be a dominant feature in the global malting barley market throughout the 2004-05 marketing campaign, and the CWB sought options to minimize this impact, including the use of container shipping when it was cost effective. Market development efforts continued, primarily focused on increasing the customer acceptance of CDC Copeland in China.

The deliveries

Early frost and poor harvest conditions reduced the amount of selectable two-row barley and drastically reduced supplies of selectable six-row barley. Two-row delivery opportunities were spread evenly throughout the year, due to a large program with China. The poor quality of the Australian crop resulted in increased marketing opportunities in the latter half of the crop year. Total receipts were 1.75 million tonnes, down from 2.14 million tonnes the year before.

Largest volume designated barley customers

(2004-05 and 2003-04 sales in 000's tonnes)



The results

Sales of malting barley to the domestic market totalled 839 000 tonnes, compared to 961 000 tonnes in 2003-04, as production difficulties limited the supply of quality selectable malting barley. China was the single largest export market for malting barley, and sales increased to 678 000 tonnes. Sales to the U.S. declined to 140 000 tonnes, mainly the result of production problems in Western Canada and a larger, improved-quality crop in the U.S. six-row barley-growing region. The CWB successfully maintained its presence in a number of markets where western Canadian malting barley has recently made inroads, including Colombia with 50 000 tonnes and South Africa with 27 000 tonnes. Exports to Japan accounted for 34 000 tonnes.

The designated barley pool returned almost $310.71 million in revenues on 1.75 million tonnes of receipts, generating an average gross revenue of $177.30 per tonne, down from the average of $191.24 per tonne the previous year. Despite the relatively tight supplies of western Canadian malting barley (due to early frost and inclement harvest weather), abundant supplies of Australian and European malting barley and the relative strength of the Canadian dollar had a negative effect on market values. The final pool return for Special Select Two-row barley in store Vancouver/St. Lawrence was $179 per tonne, compared to $200 per tonne a year ago. The final pool return for Special Select Six-row barley was $166 per tonne, compared to $186 per tonne in 2003-04. The spread between No. 1 Canadian Western Feed Barley and Special Select Two-row barley widened from $32 per tonne in 2003-04 to $48 per tonne in 2004-05, compared to the three-year average of $52.42 per tonne.

Direct costs

Direct costs increased $5.61 per tonne to $15.09, primarily due to ocean-freight costs, terminal-handling costs and grain purchases, offset by a reduction in inventory adjustments. More specifically:

- Continuing high ocean-freight rates plus strong ocean-freight demand resulted in overall higher ocean-freight costs, as a significant proportion of the pool was exported where the CWB was responsible for ocean-freight payment.
- Increased terminal handling and selection fees, due to twice as many export tonnes moving through terminal.
- Higher levels of late receipts, which were accepted in the 2004-05 year due to contractual commitments, compared to the 2003-04 crop year.
- Significant decreases in inventory adjustments compared to 2003-04, when substantial inventory promotions were recorded.

Other income

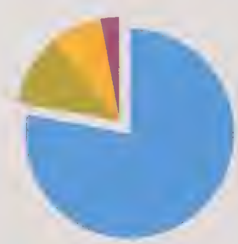
The decrease in Other income is primarily attributed to a significant reduction in freight-adjustment factor recovery, resulting from a decline in tonnes moving through the U.S. and Thunder Bay catchment areas.

Distribution of earnings

The average sales proceeds available for distribution decreased 11 per cent, or $21.47 per tonne, to $179.58. Of the amounts returned to pool participants, 89 per cent was distributed by May 25, 2005, in the form of initial and adjustment payments. In addition, three per cent, or $5.48 per tonne, was distributed as producer contract storage payments.

Earnings distributed to farmers

Designated barley 2004-05



The feed barley pool

		Barley pool A six months ended January 31, 2004-05		Barley pool B seven months ended August 31, 2004-05		Barley pool crop year ended July 31, 2003-04
Receipts (tonnes)		**29 022**		**468 736**		**844 024**
Revenue (per tonne)	**$**	**153.31**	**$**	**134.73**	$	174.87
Direct costs		**89.60**		**6.50**		9.75
Net revenue from operations		**63.71**		**128.23**		165.12
Other income		**20.76**		**2.59**		0.61
Net interest earnings		**85.55**		**4.83**		6.98
Administrative expenses		**(3.57)**		**(3.57)**		(3.67)
Grain industry organizations		**(0.09)**		**(0.08)**		(0.10)
Earnings for distribution		**166.36**		**132.00**		168.94
Transferred to contingency fund		**51.34**		**1.69**		–
Earnings distributed	**$**	**115.02**	**$**	**130.31**	$	168.94

Implementation of shorter pooling period

Under *The Canadian Wheat Board Act* (Section 31), the CWB has the authority to implement shorter pooling periods. On August 9, 2004, the CWB announced that the feed barley crop year would be split into two pooling periods, rather than having one pool for the entire crop year. The two fixed-pooling periods implemented to the CWB's feed barley marketing programs were designed to better meet farmers' needs, providing them with more responsive pooling alternatives. The first pool started on August 1, 2004 and ran to January 31, 2005. The second pool ran from February 1, 2005 to August 31, 2005. Nine Guaranteed Delivery Contracts (GDCs) and delivery periods were offered during the crop year. The first four contracts were part of pool A, while contracts five to nine made up pool B. In total, farmers signed 4,331 contracts, totalling almost 507 000 tonnes.

Feed barley pool A

The marketing environment

During the first half of the 2004-05 crop year, returns available to western Canadian feed barley producers in the international marketplace declined markedly, due to a sharp rise in barley supplies among competitors. Barley production in the EU-25 rose by 14 per cent or 7.5 million tonnes, reaching 62.3 million tonnes in 2004-05, resulting in increased barley exports from the region. Ukrainian feed barley production and exports also rose markedly in 2004-05, settling at 11.1 million tonnes (up 60 per cent from 2003-04) and 4.3 million tonnes (up 186 per cent from 2003-04) respectively. The large offshore supplies of feed barley depressed world prices, making Canadian supplies generally not price-competitive in export markets through the pool A marketing period. Pool A Canadian feed barley sales were limited by this extremely competitive offshore environment.

The strategy

The first six months of 2004-05 did not present opportunities to originate and market significant volumes of feed barley offshore, as export values were depressed relative to domestic values. The combination of aggressive competition in export markets and high ocean-freight costs rendered the export market unattractive through this period and farmers focused on the domestic market or held onto their barley, waiting for improved prices.

The deliveries

Export feed barley prices were very low during the pool A period, due to an over-abundance of world feed grain supplies and depressed world prices. This situation, combined with continually high ocean-freight rates, made deliveries into this pool generally less attractive to western Canadian farmers than the domestic feed market. Therefore, a very small pool resulted, with 29 022 receipted tonnes.

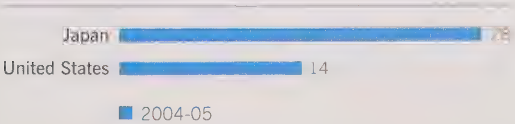
The results

The CWB sold all of the feed barley delivered by farmers, including some late-receipt-tonnage and rejected malting barley in export markets for competitive values. Factoring in these additional grain purchases, the feed barley pool totalled 42 760 tonnes. The limited sales were divided between the Japanese market, which accounted for 28 400 tonnes of sales, and U.S. customers who purchased 14 200 tonnes.

In total, the feed barley pool A returned almost $4.45 million in gross revenues on 29 022 tonnes of receipts, or an average of $153.31 per tonne.

Largest volume feed barley pool A customers

(2004-05 sales in 000's tonnes)



Direct costs

The small pool size of the 2004-05 pool A caused greater volatility in the per-tonne rate calculated. As such, direct costs reflect a per-tonne cost of $89.60, which is primarily due to other grain purchases consisting of overages and late receipts totalling 13 738 tonnes. The net margin return realized on these purchased tonnes was distributed to the pool participants.

Other income

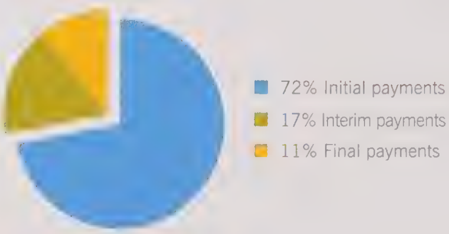
A relative increase in sales to the U.S. resulted in an increase in rail-freight recovery, one of the main components of Other income. Rail-freight recovery is the recovery of the freight deducted from cash tickets by CWB agents, where the grain was shipped to destinations other than terminal locations.

Distribution of earnings

The average sales proceeds available for distribution were $166.36 per tonne. Of the amounts returned to pool participants, 72 per cent was distributed in the form of initial payments. A further 17 per cent, or $20 per tonne, was distributed as an interim payment on May 31, 2005.

Earnings distributed to farmers

Feed barley pool A 2004-05



Feed barley pool B

The marketing environment

The last half of the 2004-05 crop year saw a dramatic improvement in both the prices and sales of western Canadian feed barley in the international market. A drought in Spain dramatically curtailed the European Union Commission's exports of feed barley in the latter part of 2004-05. In addition, feed barley production in both Ukraine and Russia declined. Reduction in supplies among these two competitors, in conjunction with lower ocean-freight rates, allowed the CWB to take advantage of rising global feed barley prices. Significant sales volumes were contracted in the latter half of the year, primarily to the Middle East.

The strategy

The positive shift in the global market fundamentals for feed barley in early summer 2005, including a significant softening in ocean-freight rates, created an opportunity for the CWB to trade significant volumes of feed barley for export. The improved prices also coincided with promising new crop development, so farmers' interest in marketing some of their supplies to the CWB for the export market was higher. The strategy was straightforward – take advantage of any windows of opportunity to originate and market feed barley to the extent farmer deliveries allowed. In addition to dividing barley into two shorter pool periods, the CWB also successfully relied on GDCs with farmers and tendering with companies to assure supplies. These tools enabled the CWB to know precisely how much farmers wished to market and to respond to buyer interest with assured, timely delivery and execution, right through the chain from farmers to customer.

The deliveries

A series of positive changes to global feed barley fundamentals in the latter half of the year resulted in stronger feed barley prices, which in turn translated into stronger projected returns for pool B versus pool A. This encouraged many farmers to market feed barley through the CWB rather than sell into the domestic market. The use of GDCs also provided farmers greater certainty regarding timing of delivery. As a result, total feed barley receipts for pool B were 468 736 tonnes.

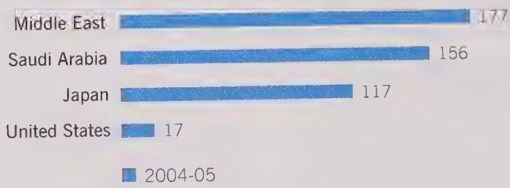
The results

As described above, a series of factors in the international feed barley market presented trading opportunities to the CWB during the latter half of the marketing year, while farmer interest in marketing feed barley through the CWB dramatically increased the size of pool B. Sales to Middle Eastern destinations represented 177 000 tonnes of total feed barley exports in 2004-05, while total sales volume to Saudi Arabia was 156 000 tonnes and Japan represented 117 000 tonnes of sales. The U.S. also provided an outlet for pool B feed barley sales, accounting for 17 000 tonnes.

In total, the feed barley pool B returned almost $63.15 million in gross revenues on 468 736 tonnes of receipts, or an average of $134.73 per tonne. Final pool returns for No. 1 Canada Western Feed Barley in store Vancouver/St. Lawrence yielded $131.68 per tonne.

Largest volume feed barley pool B customers

(2004-05 sales in 000's tonnes)



Direct costs

Direct costs reflect a per-tonne cost of $6.50, primarily due to lower terminal handling costs resulting from fewer free on board (FOB) sales and decreased storage, as average country and terminal storage time was significantly less.

Other income

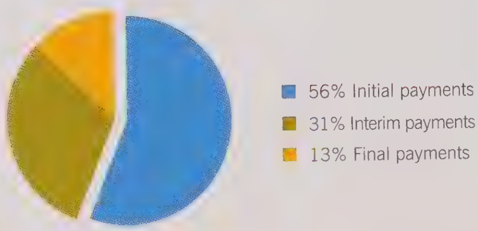
A relative increase in sales to the U.S. resulted in increased rail-freight recovery, one of the main components of Other income. Rail-freight recovery is the recovery of the freight deducted from cash tickets by CWB agents where the grain was shipped to destinations other than terminal locations.

Distribution of earnings

The average sales proceeds available for distribution were $132 per tonne. Of the amounts returned to pool participants, 56 per cent was distributed in the form of initial payments. A further 31 per cent, or $40.02 per tonne, was distributed as an interim payment on October 25, 2005.

Earnings distributed to farmers

Feed barley pool B 2004-05



Indirect income and expenses

Administrative expenses

Administrative expenses increased $2 million, or three per cent from the previous crop year, to $70 million. This increase was primarily due to the new Information and Technology (I&T) outsourcing agreement and resulting transition of $3 million. The I&T outsourcing costs were partly offset by savings experienced in human resources and computer services of $1.1 million. Further decreases in human resources resulted from increased vacancies and corporate review savings, for a total decrease of $2.1 million. Other significant increases included the depreciation for new capital projects ($900,000); resumption of normal travel, training and other expenses ($700,000); and advertising expenses ($600,000), largely due to new corporate initiatives.

Grain industry organizations

The CWB continued to provide support for organizations that benefit, both directly and indirectly, western Canadian grain farmers. During 2004-05, the CWB contributed $1.6 million to the operations of the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC). CIGI and CMBTC play an integral role in the CWB's marketing and product development strategy by providing technical information and educational programs to customers.

The CWB continued to provide support for organizations that benefit, both directly and indirectly, western Canadian grain farmers.

Net interest earnings

(Dollar amounts in 000's)		2004-05		2003-04
Interest on credit sales				
Revenue on credit sales receivables	$	**150,628**	$	131,520
Expense on borrowings used to finance credit sales receivables		**106,821**		78,305
Net interest on credit sales		**43,807**		53,215
Interest revenue on pool account balances		**5,609**		410
Other interest				
Revenue		**5,870**		5,321
Expense		**1,902**		2,821
Net other interest revenue		**3,968**		2,500
Total net interest earnings	$	**53,384**	$	56,125

Net interest earnings of $53.38 million were due primarily to the net interest earned on amounts owed to the CWB on credit grain sales made under the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). When the CWB sells grain on credit, it must borrow an equal amount to facilitate payments to farmers until the credit is repaid to the CWB. The CWB is able to borrow at interest rates lower than those rates received by the CWB from the credit customer. As a result, the CWB earns an interest "spread".

During periods when interest rates are trending downwards or upwards, the spread will widen or narrow because of the differences in term between the receivable and the related borrowing. The spread margin earned during the current year remained stable compared to 2003-04.

Although the spread margin did not fluctuate, interest revenue and expense increased due to higher interest rates. This was offset by lower U.S. exchange rates, and reduced credit receivables balances, as countries such as Brazil, Mexico, Peru, Poland, Russia and Zambia made sizeable repayments during the year.

The interest on the pool account balances has increased as a result of the net undistributed earnings in wheat being more favourable in the current crop year.

Other interest revenue from customers, which includes receipt of sales proceeds on non-credit sales, will fluctuate year-over-year, as the number of days outstanding on these arrangements will typically range between one and 10. Expenses, primarily from financing costs such as treasury fees and bank charges, make up the main portion of other interest expense.

Credit sales

(Dollar amounts in 000's)	2004-05	2003-04
Credit sales		
Agri-food Credit Facility	**$ 118,669**	$ 153,155
Credit assumed by others	**118,669**	149,965
Total credit sales	**237,338**	303,120
Total sales	**$ 3,739,344**	$ 4,136,168

Credit programs

The Government of Canada provides repayment guarantees on CWB credit sales. New credit proposals are recommended by the CWB for review and approval by the government. Acting within credit limits and terms approved by the government, the CWB works with individual customers to structure credit facilities. These credit arrangements are structured according to commercial terms and can be an important factor in foreign markets. During 2004-05, credit sales totalled $237.3 million, representing 6.3 per cent of total sales, compared to $303.1 million, or 7.3 per cent, of sales in the previous year. The CWB uses the following two credit programs:

Credit Grain Sales Program (CGSP)

The CGSP was established to facilitate CWB grain sales made on credit to customers who can provide a sovereign guarantee of repayment from their central bank or ministry of finance. During the year ended July 31, 2005 and the previous year, there were no grain sales under the CGSP.

The balance receivable at July 31, 2005 was $3.9 billion. The payment of principal and interest has been rescheduled over periods ranging from five to 25 years under terms agreed to by the Government of Canada. Included in the rescheduled amount was $23.3 million to be paid to the CWB by the government under debt-reduction arrangements, where the government had assumed certain amounts that otherwise would have been paid by the debtor government.

During the year ended July 31, 2005, Iraq's overdue obligation was rescheduled. Under the terms of the rescheduled agreement, the Government of Canada paid a significant amount of Iraq's debt on their behalf in September 2005. A further payment is expected from the Government of Canada by December 31, 2005 and another on December 31, 2008. In total, the Government of Canada will pay 80 per cent of the total debt rescheduled. The balance of the debt is due from Iraq.

In July 2005, Russia prepaid $590 million, which represents the Canadian equivalent of $486 US million of its debt.

Since the Government of Canada guarantees repayment of 100 per cent of the principal and interest of the CGSP receivables, the CWB makes no allowance for credit losses (see Financial statement note 3).

Agri-food Credit Facility (ACF)

The ACF was established to facilitate CWB grain sales made on credit, directly or through accredited exporters, to commercial (non-government) customers around the world. The Government of Canada, together with the CWB, evaluates each transaction. During the year ended July 31, 2005, $118.7 million of grain was sold under the ACF program, compared to $153.2 million during the previous year.

The balance receivable at July 31, 2005 from sales made under this program was $49.9 million. The Government of Canada guarantees a declining percentage of the receivables under this program based on the repayment period, with the CWB assuming the residual risk. The portion of credit risk assumed by the CWB under this program at July 31, 2005 was $1 million. This is considered collectable, therefore there was no allowance made for credit losses (see Financial statement note 3).

Credit assumed by others

The CWB may partner with other parties in providing credit to CWB customers. In these cases, the CWB receives payment for the other party's portion of the credit transaction.
The other party then assumes the risk of non-payment by the customer on their portion of the credit extended. During the year ended July 31, 2005, credit provided by other parties under these arrangements totalled $118.7 million, compared to $150 million the previous year.

Producer Payment Options

Providing farmers choice and flexibility is a priority of the farmer-controlled board of directors. Beginning in 2000-01, the board of directors introduced a number of innovative Producer Payment Options (PPOs) that have been expanded or enhanced every crop year. The 2004-05 crop year was no exception, with enhancements to the Fixed Price Contracts (FPCs) and Basis Payment Contracts (BPCs) to make both programs easier for farmers to use. As well, the Early Payment Option (EPO) and Pre-delivery Top-up (PDT) programs were expanded.

The most significant change was the extension of the sign-up deadline for the FPC and BPC for wheat and the FPC for barley and durum wheat until October 31, 2004, a full three months later than the July 31 deadline that had been in place since the program's inception. This enables farmers to choose a fixed price or basis level later in the crop year when quantity and quality of grain is known. This allows the farmers to more accurately analyze their pricing options. The enhancements follow a series of consultations held with farmers on how to strengthen the PPOs and build on the work done since the PPOs were first introduced five years ago.

While the PPOs offer farmers unprecedented opportunities to exercise control over the marketing of their wheat and barley, they are structured so that the integrity of the CWB pool accounts is maintained. Price pooling, which provides farmers a return that reflects sales made throughout the crop year, is an effective price risk-management tool that farmers continue to value and support.

Programs

Three types of PPOs and a PDT program are available to Prairie farmers through the CWB.

1. The FPC: Introduced in the 2000-01 crop year, the FPC enables farmers to lock in a price for all or a portion of their wheat, durum or barley from February 28 to October 31. The wheat FPC is comprised of the December basis plus the relevant futures price. The durum and barley FPC is comprised of the Pool Return Outlook (PRO), less a discount. Program costs are entirely covered by the farmers who use it. Farmers get full payment for their grain when it has been both delivered and priced. They receive no further payments from the pool accounts for these deliveries. During the 2004-05 crop year, 5,870 farmers signed an FPC and delivered 948 535 tonnes of wheat, 388 tonnes of durum, 46 tonnes of designated barley and 109 tonnes of feed barley.

2. The BPC: Launched at the same time as the FPC, the BPC enables farmers to lock in the pooled basis and futures at different times during the program. When pricing their grain, farmers get the futures price that they have selected plus the basis that they locked in. Farmers get full payment for their grain when it has been both delivered and priced. They receive no further payments from the pool accounts for these deliveries. The BPC was extended to all classes of wheat (excluding durum) for the 2001-02 crop year. In 2004-05, 912 farmers signed a BPC and a total of 222 376 tonnes of wheat was delivered.

3. The EPO: Introduced in the 2001-02 crop year, the EPO enables farmers to receive 80, 90 or 100 per cent of the PRO, less a discount for risk, time value of money and administration costs, at time of delivery. Farmers receive the initial payment less the usual freight and elevation charges at that time. The CWB then issues an additional payment to bring the total to 80, 90, or 100 per cent of the locked-in PRO less the discount. Farmers are eligible for any future adjustment, interim and final payments that increase the price of these deliveries beyond the value that they have locked in. This program therefore not only serves to help farmers meet their cash flow needs, but also gives them the opportunity to set a floor price for their grain.

   In the 2004-05 crop year, the program was expanded to include a 100 per cent EPO for wheat and feed barley and an 80 per cent EPO for durum and designated barley. The 80 per cent early payment value was added to provide farmers with more cash flexibility at lower discount costs. Introduced due to frost and poor harvest conditions, the Feed Grade EPO offers farmers increased cash flow following delivery and a floor price for feed grade wheat and durum.

A total of 11,690 farmers signed EPO contracts, delivering 3 081 520 tonnes.

2004-05 EPO programs

	80%	90%	100%
Wheat	✓	✓	✓*
Feed barley	✓	✓	✓*
Designated barley	✓*	✓	
Durum	✓*	✓	

*New for 2004-05

4. The PDT program: The program was first introduced in the 2003-04 crop year, but was limited to non-Canada Western Red Spring (CWRS) wheat classes. In the 2004-05 crop year the program was expanded to include CWRS. Wheat growers who have taken a fall cash advance can apply for an additional $20 per tonne for their grain, to be paid prior to delivery. Participants are responsible for the costs of the program, including risk management, administration costs and time value of money. Repayment is received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. PDT payments of $704,140 were issued to 67 farmers.

Financial results

1. FPC/BPC

In 2004-05, there was a dramatic increase in the number of tonnes delivered under the FPC and BPC programs, rising from 159 253 tonnes in 2003-04 to 1 171 454 tonnes in 2004-05. Deliveries made under FPCs and BPCs are outside of the pool accounts, with all pool returns (initial, interim and final payments) that otherwise would have been paid to farmers, instead paid to these programs. This amounted to $224,985,944 for wheat, $84,582 for durum, $8,030 for designated barley and $12,723 for barley. When other revenue, like liquidated damages and program expenses (including net hedging results after resulting distributions, interest and administrative expenses), is accounted for, the FPC and BPC programs generated a combined surplus of $31,792,174.

Of the total combined surplus, the wheat FPC/BPC program contributed $31,776,656. There were two significant events that resulted in the wheat surplus.

The CWB hedges to manage risks associated with the FPC and BPC programs. This year, futures markets have generally trended downwards, resulting in hedging gains ($57 million for wheat). Ordinarily, these funds would be placed in the CWB's contingency fund.

During the 2004-05 crop year, many western Canadian farmers faced significant losses due to frost and poor harvest conditions. At its September 2004 meeting, the CWB's farmer-controlled board of directors voted to return gains to farmers who were unable to fulfil their contracts.

By returning hedging gains on FPCs and BPCs, the CWB hoped to assist those farmers hardest hit by the year's exceptional circumstances. The one-time-only policy decision enabled farmers to benefit from any futures gains, net of basis change, that they may have achieved on their FPC or BPC. Hedging gain payments of $5,059,642 were issued to 1,347 farmers.

Another factor impacting the wheat FPC/BPC results was the basis levels which cannot be hedged. Basis levels increased dramatically after the rain downgraded much of the North American harvest. This change in basis levels occurred after much of the 2004-05 program was priced by producers, creating gains of approximately $35 million net in the wheat FPC/BPC program.

2. EPO

Tonnes delivered to EPO contracts continued to increase in 2004-05 from 2 652 369 tonnes in 2003-04 to 3 081 520 tonnes in 2004-05. The EPO discount, charged to farmers for risk, time value of money and program administration costs, was $3,980,567. After accounting for liquidated damages charged for non-delivery, net interest expense and net hedging results, a surplus of $3,269,402 was generated.

Contingency fund

The Canadian Wheat Board Act (The Act) provides for the establishment of a contingency fund. The contingency fund can be populated through a variety of mechanisms, including the results of operations of the Producer Payment Options (PPO) program or other sources of revenue received in the course of operations. Since the establishment of the fund in 2000-01, barley interest earnings have contributed a significant portion of the cumulative balance (see Financial statement note 14). One of the purposes of the fund is to cover deficits or surpluses that may occur as a result of the operation of the PPO programs. *The Act* also requires that all revenue generated, less the costs of operations, be distributed through the pool accounts. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $50 million.

If the CWB were to follow past practice and transfer the $35 million surplus from the PPO programs to the contingency fund, the balance of the fund would exceed this $50 million maximum. To comply with this maximum limit requirement, $7.5 million was transferred to pool results to be distributed to pool participants and $27.5 million was transferred to the contingency fund (see Financial statement note 14).

One of the purposes of the fund is to cover deficits or surpluses that may occur as a result of the operation of the PPO programs.

Funding

The CWB is committed to minimizing borrowing costs and maintaining access to money by exploring new borrowing opportunities, as well as expanding and diversifying its investor base.

Under *The Act*, and with the approval of the federal Minister of Finance, the CWB is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness.

All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the Minister of Finance from time of issuance to the date of maturity. Therefore the credit ratings of these debt issues reflect the top credit quality of the Government of Canada. Long-term and short-term ratings of the CWB's debt are currently as follows: Moody's Investors Service Senior Unsecured Ratings (Aaa/P-1), Standard & Poor's Ratings Group Issue Credit Ratings (AAA/A-1+) and Dominion Bond Rating Service Debt Ratings (AAA//R-1(high)).

Standard & Poor's Ratings Group also provides long-term and short-term Issuer Credit Ratings on the CWB of AAA/A-1+. This opinion focuses on the CWB's capacity and willingness to meet its financial commitments as they come due, but does not take into account the creditworthiness of the CWB's guarantor, the Minister of Finance. The CWB's long-term Issuer Credit Rating of AAA was placed on negative outlook on November 14, 2005 reflecting future changes that could occur as a result of World Trade Organization (WTO) negotiations with regard to the Minister of Finance's guarantee on the CWB's debt and on the government's commitment to guarantee initial payments to farmers. This negative outlook is not associated with the CWB's current debt issues, which are unconditionally and irrevocably guaranteed by the Minister of Finance.

The CWB borrows money to finance grain inventories, accounts receivable from credit sales and administrative and operating expenses, and to administer the Government of Canada's advance payment programs. The CWB borrows in a variety of currencies, but mitigates currency risk by converting borrowings into either Canadian or U.S. dollars to match the assets being financed.

The CWB manages multiple debt portfolios with total outstanding ranging between $4 billion and $5 billion. These include:

- Domestic commercial paper program (the "Wheat Board Note" program);
- U.S. commercial paper program;
- Euro commercial paper program;
- Euro medium-term note program; and
- Domestic medium-term note program.

Although the notes issued under the Euro medium-term note program have an original term to maturity of up to 15 years and are therefore considered long-term debt for reporting purposes, many of these notes are redeemable by the CWB before maturity due to embedded call features.

Financial risk management

The CWB seeks to minimize risks related to the financial operations of the Corporation. The CWB actively manages exposures to financial risks and ensures adherence to approved corporate policies and risk-management guidelines.

Market risk

Market risk is the exposure to movements in the level or volatility of market prices that may adversely affect the CWB's financial condition. The market risks the CWB is exposed to are commodity, foreign-exchange and interest-rate risk.

Commodity-price risk is the exposure to reduced revenue for the CWB due to adverse changes in commodity prices. The CWB uses exchange-traded futures and option contracts to mitigate commodity-price risk inherent to its core business for the wheat pool.

The CWB's commodity risk-management program involves an integrated approach that combines sales activity with exchange-traded derivatives to manage risk of an adverse movement in the price of grain between the time the crop is produced and the time the crop is ultimately sold to customers. Exchange-traded derivatives are used to complement the CWB's selling activity to provide flexible pricing alternatives to customers, such as basis contracts, and to engage in limited discretionary pricing activity when necessary. The CWB also manages the commodity-price risk related to the various Producer Payment Options (PPOs) offered to Prairie farmers that provide pricing choices and cash-flow alternatives.

Foreign-exchange risk is the exposure to changes in foreign-exchange rates that may adversely affect Canadian dollar returns to the CWB. Sales made by the CWB are priced either directly or indirectly in U.S. dollars, resulting in exposure to foreign-exchange risk.

To manage foreign-exchange risk, the CWB hedges foreign-currency revenue values using derivative contracts to protect the expected Canadian dollar proceeds on sales contracts. In addition, the CWB manages foreign-exchange risk as it relates to various payment options offered to Prairie farmers.

Interest-rate risk is the exposure to changes in market interest rates that may adversely affect the CWB's net interest earnings. The CWB's interest-rate risk arises from the mismatch in term and interest rate re-pricing dates on the CWB's interest-earning assets and interest-paying liabilities. The spread between the interest-earning assets and interest-paying liabilities represents net interest earnings, which are paid to farmers annually.

Credit risk

Credit risk is the risk of potential loss, should a counterparty fail to meet its contractual obligations. The CWB is exposed to credit risk on non-guaranteed credit sales accounts receivable, as well as credit risk on investments and over-the-counter derivative transactions used to manage the CWB's market risks.

Accounts receivable from credit sales

The CWB sells grain under two government-guaranteed export credit programs: the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see the Credit Grain Sales Program sections on page 43 and Financial statement note 3.

Investments

The CWB uses short-term investments for the purpose of cash management, adhering to requirements of *The Act*, the CWB's annual borrowing authority granted by the Minister of Finance and applicable government guidelines. The CWB manages investment-related credit risk by transacting only with highly-rated counterparties.

Derivative transactions

The CWB enters into master agreements with all counterparties to minimize credit, legal and settlement risk.

The CWB transacts only with highly-rated counterparties who meet the requirements of the CWB's financial risk-management policies. These policies meet or exceed the Minister of Finance's credit policy guidelines.

The CWB's commodity futures and option contracts involve minimal credit risk, as the contracts are exchange-traded. The CWB manages its credit risk on futures and option contracts by dealing through exchanges, which require daily mark-to-market and settlement.

Liquidity risk

Liquidity risk is the risk of being unable to meet corporate obligations. In the normal course of operations, the CWB's diversified funding programs provide sufficient liquidity to meet daily cash requirements. The CWB may hold highly-rated short-term investments to ensure that sufficient funds are available to meet debt obligations. Additionally, the CWB maintains lines of credit with financial institutions to provide supplementary access to funds.

Operational risk

Operational risk is the risk of loss resulting from a breakdown in administrative procedures and controls or any aspect of operating procedures. The CWB's operational risk-management philosophy encourages an environment of effective operational risk discipline. Operational risk-management activities include segregation of duties, cross-training and professional development, disaster recovery planning, use of an integrated financial system, internal and external audits and an independent risk-control and reporting function.

Outlook

The 2005-06 growing season was warmer than 2004-05, which was one of the coldest on record. However, weather again presented western Canadian farmers with many challenges. Extreme spring moisture in the eastern Prairies and parts of southern Alberta prevented some farmers from seeding their crop. The growing season was above average, with good yield prospects throughout the Prairies. The quality of the wheat and barley crops was hurt by the cool, wet conditions experienced in August and September, which delayed harvest and resulted in downgrading due to mildew, sprouting and bleaching. Overall, the quality of the 2005-06 wheat, durum, and barley crops was better than 2004-05; however, crop quality still remains significantly below average.

Looking ahead to the coming marketing year, there are indications that world wheat market conditions are improving. World wheat production is projected to decline to 605 million tonnes (the third largest on record) from the 2004-05 record crop of 620 million tonnes. Much of the decline in wheat production is projected to occur in the EU-25 and Argentina. Canada and the U.S. are expected to produce crops similar in size to 2004-05. Australia is the only major exporter that is expected to see a rise in wheat production.

Prices for higher-quality milling wheat are expected to stay firm in the upcoming season. For the second year in a row, production problems were experienced in the U.S. and Canada. The U.S. Northern Plains experienced a severe Fusarium Head Blight outbreak on a significant portion of its crop in 2005-06. In addition, Canada experienced wet and cool harvest conditions through much of the growing region.

Any improvement in the price environment for lower- to medium-quality wheat is anticipated to be limited by export competition from the European Union (EU) and the Commonwealth of Independent States (CIS).
The 2005-06 wheat crop was nine per cent larger in Russia, Ukraine and Kazakhstan, compared to 2004-05. In addition, the EU is still trying to work through burdensome wheat stocks amounting to almost double last year's level.

The 2005-06 global durum crop is projected to decline over five million tonnes to 34.3 million tonnes. Smaller crops in the key importing regions of North Africa and Europe are expected to improve global durum demand. Positive market developments in North Africa and Europe are expected to be tempered by large EU stocks. In addition, larger crops in North America are expected, with total production forecast at eight million tonnes. Overall, an extremely competitive global durum market is expected in the coming year, which will limit both price appreciation and sales.

The barley market environment is anticipated to improve over last year. Global barley production is expected to decline 16 million tonnes to 134 million tonnes in 2005-06. Smaller barley crops are expected in both Europe and the CIS. The U.S. is expected to produce the smallest barley crop since 1936. A drought in Spain and feed barley production problems in both Ukraine and Russia have reduced global feed barley supplies and are expected to create opportunities for Canadian feed barley. A healthy sign for the malting barley market is the forecasted growth in Chinese demand (2.1 million tonnes) for the second consecutive year. With Australia projected to harvest a significantly larger barley crop in 2005-06, demand for both feed and malting barley could be negatively impacted.

Forward-looking information

Certain forward-looking information contained in this annual report is subject to risk and uncertainty because of the reliance on assumptions and estimates based on current information. A number of factors could cause actual results to differ from those expressed. They include, but are not limited to: weather; changes in government policy and regulations; world agriculture commodity prices and markets; shifts in currency values; the nature of the transportation environment, especially for rail within North America and by ocean vessel internationally; and changes in competitive forces and global political/economic conditions, including continuing WTO negotiations with regard to the Minister of Finance's guarantee on the CWB's debt and on the government's commitment to guarantee initial payments to farmers. In addition, the long-term real return bond rates continued to decline over the past year to new levels, resulting in significant pressures on pension plan solvency valuations.

Financial results

Management's responsibility for financial reporting

The financial statements of the Canadian Wheat Board included in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the board of directors. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and reflect the results for the 2004-05 pool accounts, Producer Payment Options and the financial status of the Corporation at July 31, 2005.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by an internal audit department that conducts periodic reviews of different aspects of the Corporation's operations.

The board of directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The board of directors exercises this responsibility through the Audit, Finance and Risk Committee of the board of directors, which is composed of directors who are not employees of the Corporation. The Audit, Finance and Risk Committee meets with management, the internal auditors and the external auditors on a regular basis, and the external and internal auditors have full and free access to the Audit, Finance and Risk Committee.

The Corporation's external auditors, Deloitte & Touche LLP, are responsible for auditing the transactions and financial statements of the Corporation and for issuing their report thereon.

Adrian Measner   B Chell

Adrian Measner
President & Chief Executive Officer

Brita Chell
Chief Financial Officer

Winnipeg, Manitoba
November 17, 2005

Auditors' report

To the board of directors of the Canadian Wheat Board

We have audited the financial statements of the Canadian Wheat Board which include the balance sheet as at July 31, 2005 and the combined statement of pool operations and statement of distribution to producers for the 2004-2005 pool accounts, the statements of operations and statements of distribution to producers for the 2004-2005 pool accounts for wheat and durum for the period August 1, 2004 to completion of operations on July 31, 2005, for designated barley for the period August 1, 2004 to completion of operations on August 31, 2005, and for barley for the period August 1, 2004 to January 31, 2005 and for the period February 1, 2005 to August 31, 2005, the statements of operations for wheat, durum, designated barley and barley producer payment options for the period August 1, 2004 to July 31, 2005, the statement of cash flow for the year ended July 31, 2005, and the statement of administrative expenses for the year ended July 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2005 and the results of its operations and the cash flow for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
November 17, 2005

Balance sheet

AS AT JULY 31 (dollar amounts in 000's)	2005	2004
ASSETS		
Accounts receivable		
Credit programs (Note 3)	$ 3,926,944	$ 5,311,103
Non-credit sales	12,450	27,510
Advance payment programs (Note 4)	333,794	318,776
Prepayment of inventory program	38,914	24,880
Other	50,000	61,389
	4,362,102	5,743,658
Inventory of grain (Note 5)	827,153	871,269
Deferred and prepaid expenses (Note 6)	40,187	10,093
Capital assets (Note 7)	47,659	51,436
Total assets	**$ 5,277,101**	**$ 6,676,456**
LIABILITIES		
Borrowings (Note 8)	$ 4,150,528	$ 5,482,135
Accounts payable and accrued expenses (Note 9)	156,290	149,611
Liability to agents (Note 10)	508,595	542,513
Liability to producers – Outstanding cheques	20,703	15,122
Liability to producers – Undistributed earnings (Note 11)	386,752	462,321
Provision for producer payment expenses (Note 12)	1,741	2,241
Special account (Note 13)	3,880	4,060
Contingency fund (Note 14)	48,612	18,453
Total liabilities	**$ 5,277,101**	**$ 6,676,456**

Approved by the board of directors:

Ken Ritter

Ken Ritter
Chair, board of directors

Adrian Measner

Adrian Measner
President and Chief Executive Officer

Combined pool accounts

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005	2004
STATEMENT OF POOL OPERATIONS*		
Receipts (tonnes)	**19 370 521**	**18 438 041**
Revenue	**$ 3,739,343**	**$ 4,136,168**
Direct costs		
Freight	181,200	190,437
Terminal handling	114,623	98,999
Inventory storage	64,490	52,654
Country inventory financing	5,489	7,216
Inventory adjustments (Note 15)	(18,818)	(3,982)
Other grain purchases (Note 16)	25,603	7,877
Other direct expenses (Note 17)	34,957	16,505
Total direct costs	**407,544**	**369,706**
Net revenue from operations	**3,331,799**	**3,766,462**
Other income (Note 18)	163,441	161,124
Net interest earnings	53,384	56,125
Administrative expenses (Note 19)	(69,212)	(67,581)
Grain industry organizations	(1,647)	(1,836)
Earnings for distribution	**$ 3,477,765**	**$ 3,914,294**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION		
Earnings distributed to pool participants		
Receipts (tonnes)	**17 701 418**	**18 278 788**
Initial payments on delivery	$ 2,513,799	$ 2,892,700
Adjustment payments	302,499	509,209
Interim payment	200,947	258,787
Final payment	223,440	204,961
Producer contract storage payments	9,608	15,984
Rebate on producer cars	102	139
Total earnings distributed to pool participants	3,250,395	3,881,780
Transferred to contingency fund		
Undistributed earnings (Note 14)	2,278	
Non-pool Producer Payment Options program		
Receipts (tonnes)	**1 171 454**	**159 253**
Sales returns paid to payment program	225,092	32,514
Total distribution	**$ 3,477,765**	**$ 3,914,294**

Wheat pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005		2004	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	13 296 295		12 375 988	
Revenue	**$ 2,533,640**	**$ 190.55**	**$ 2,808,294**	**$ 226.91**
Direct costs				
Freight	106,535	8.01	134,766	10.89
Terminal handling	83,784	6.30	77,799	6.28
Inventory storage	40,763	3.07	32,074	2.59
Country inventory financing	3,649	0.27	4,913	0.40
Inventory adjustments (Note 15)	(8,683)	(0.65)	(5,056)	(0.41)
Other grain purchases (Note 16)	10,800	0.81	5,023	0.41
Other direct expenses (Note 17)	30,201	2.27	12,545	1.00
Total direct costs	**267,049**	**20.08**	**262,064**	**21.16**
Net revenue from operations	**2,266,591**	**170.47**	**2,546,230**	**205.75**
Other income (Note 18)	110,338	8.29	97,673	7.89
Net interest earnings	39,211	2.95	39,858	3.22
Administrative expenses (Note 19)	(47,508)	(3.57)	(45,362)	(3.67)
Grain industry organizations	(1,076)	(0.08)	(1,179)	(0.10)
Earnings for distribution	**$ 2,367,556**	**$ 178.06**	**$ 2,637,220**	**$ 213.09**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	12 125 384		12 217 247	
Initial payments on delivery	$ 1,690,743	$ 139.44	$ 1,989,659	$ 162.86
Adjustment payments	178,271	14.70	347,732	28.46
Interim payment	127,387	10.51	144,204	11.80
Final payment	146,115	12.05	123,148	10.08
Rebate on producer cars	54	–	78	0.01
Total earnings distributed to pool participants	2,142,570	176.70	2,604,821	213.21
Non-pool Producer Payment Options program				
Receipts (tonnes)	1 170 911		158 741	
Sales returns paid to payment program	224,986	192.15	32,399	204.10
Total distribution	**$ 2,367,556**	**$ 178.06**	**$ 2,637,220**	**$ 213.09**

Durum pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005 Total	2005 Per tonne	2004 Total	2004 Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**3 823 967**		**3 079 664**	
Revenue	**$ 827,390**	**$ 216.37**	**$ 771,330**	**$ 250.46**
Direct costs				
Freight	60,621	15.85	46,311	15.04
Terminal handling	23,978	6.27	13,533	4.39
Inventory storage	17,676	4.62	12,047	3.91
Country inventory financing	1,113	0.29	1,305	0.42
Inventory adjustments (Note 15)	(10,361)	(2.71)	(962)	(0.31)
Other grain purchases (Note 16)	10,596	2.77	2,419	0.79
Other direct expenses (Note 17)	4,759	1.24	4,487	1.45
Total direct costs	**108,382**	**28.33**	**79,140**	**25.69**
Net revenue from operations	**719,008**	**188.04**	**692,190**	**224.77**
Other income (Note 18)	16,187	4.23	15,359	4.99
Net interest earnings	7,576	1.97	8,589	2.79
Administrative expenses (Note 19)	(13,663)	(3.57)	(11,288)	(3.67)
Grain industry organizations	(309)	(0.08)	(293)	(0.10)
Earnings for distribution	**$ 728,799**	**$ 190.59**	**$ 704,557**	**$ 228.78**

* Excludes operation of Producer Payment Options program

	2005 Total	2005 Per tonne	2004 Total	2004 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**3 823 579**		**3 079 194**	
Initial payments on delivery	$ 540,979	$ 141.48	$ 487,124	$ 158.20
Adjustment payments	88,275	23.09	77,437	25.15
Interim payment	54,223	14.18	93,275	30.29
Final payment	45,192	11.82	46,560	15.12
Rebate on producer cars	45	0.01	53	0.02
Total earnings distributed to pool participants	728,714	190.58	704,449	228.78
Non-pool Producer Payment Options program				
Receipts (tonnes)	**388**		**470**	
Sales returns paid to payment program	85	217.99	108	230.00
Total distribution	**$ 728,799**	**$ 190.59**	**$ 704,557**	**$ 228.78**

Designated barley pool

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2005 Total	2005 Per tonne	2004 Total	2004 Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	1 752 501		2 138 365	
Revenue	$ 310,711	$ 177.30	$ 408,950	$ 191.24
Direct costs				
Freight	13,753	7.85	9,504	4.44
Terminal handling	5,136	2.93	2,181	1.03
Inventory storage	5,068	2.89	6,195	2.90
Country inventory financing	684	0.39	900	0.42
Inventory adjustments (Note 15)	196	0.11	2,085	0.97
Other grain purchases (Note 16)	2,458	1.40	289	0.14
Other direct expenses (Note 17)	(833)	(0.48)	(889)	(0.42)
Total direct costs	**26,462**	**15.09**	**20,265**	**9.48**
Net revenue from operations	**284,249**	**162.21**	**388,685**	**181.76**
Other income (Note 18)	35,095	20.02	47,574	22.25
Net interest earnings	1,848	1.05	1,790	0.84
Administrative expenses (Note 19)	(6,262)	(3.57)	(7,838)	(3.67)
Grain industry organizations	(222)	(0.13)	(284)	(0.13)
Earnings for distribution	**$ 314,708**	**$ 179.58**	**$ 429,927**	**$ 201.05**

* Excludes operation of Producer Payment Options program

	2005 Total	2005 Per tonne	2004 Total	2004 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to producers				
Receipts (tonnes)	1 752 455		2 138 365	
Initial payments on delivery	$ 245,659	$ 140.18	$ 327,636	$ 153.22
Adjustment payments	35,953	20.52	46,829	21.90
Interim payment	–	–	14,557	6.81
Final payment	23,477	13.40	24,918	11.65
Producer contract storage payments	9,608	5.48	15,984	7.47
Rebate on producer cars	3	–	3	–
Total earnings distributed to pool participants	314,700	179.58	429,927	201.05
Non-pool Producer Payment Options program				
Receipts (tonnes)	46		–	
Sales returns paid to payment program	8	174.57	–	–
Total distribution	**$ 314,708**	**$ 179.58**	**$ 429,927**	**$ 201.05**

Barley pool

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2005				2004	
	Barley pool A six mo's ended January 31		Barley pool B seven mo's ended August 31		Barley pool crop year ended July 31	
	Total	Per tonne	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*						
Receipts (tonnes)	29 022		468 736		844 024	
Revenue	$ 4,449	$ 153.31	$ 63,153	$ 134.73	$ 147,595	$ 174.87
Direct costs						
Freight	(21)	(0.73)	312	0.66	(143)	(0.17)
Terminal handling	342	11.79	1,383	2.95	5,486	6.49
Inventory storage	199	6.86	784	1.67	2,338	2.77
Country inventory financing	10	0.34	33	0.07	98	0.12
Inventory adjustments (Note 15)	23	0.79	7	0.02	(49)	(0.06)
Other grain purchases (Note 16)	1,552	53.46	197	0.42	146	0.17
Other direct expenses (Note 17)	495	17.09	335	0.71	362	0.43
Total direct costs	**2,600**	**89.60**	**3,051**	**6.50**	**8,238**	**9.75**
Net revenue from operations	**1,849**	**63.71**	**60,102**	**128.23**	**139,357**	**165.12**
Other income (Note 18)	602	20.76	1,219	2.59	517	0.61
Net interest earnings	2,483	85.55	2,266	4.83	5,888	6.98
Administrative expenses (Note 19)	(104)	(3.57)	(1,675)	(3.57)	(3,093)	(3.67)
Grain industry organizations	(2)	(0.09)	(38)	(0.08)	(80)	(0.10)
Earnings for distribution	**$ 4,828**	**$ 166.36**	**$ 61,874**	**$ 132.00**	**$ 142,589**	**$ 168.94**

* Excludes operation of Producer Payment Options program

	Total	Per tonne	Total	Per tonne	Total	Per tonne
STATEMENT OF DISTRIBUTION						
Earnings distributed to producers						
Receipts (tonnes)	28 913		468 736		843 982	
Initial payments on delivery	$ 2,385	$ 82.46	$ 34,033	$ 72.61	$ 88,280	$ 104.60
Adjustment payments	–	–	–	–	37,211	44.09
Interim payment	578	20.00	18,759	40.02	6,752	8.00
Final payment	368	12.75	8,288	17.68	10,334	12.24
Rebate on producer cars	–	–	–	–	5	0.01
Total earnings distributed to producers	3,331	115.21	61,080	130.31	142,582	168.94
Transferred to contingency fund						
Undistributed earnings (Note 14)	1,484	51.34	794	1.69	–	–
Non-pool Producer Payment Options program						
Receipts (tonnes)	109		–		42	
Sales returns paid to payment program	13	116.72	–	–	7	169.21
Total distribution	**$ 4,828**	**$ 166.36**	**$ 61,874**	**$ 132.00**	**$ 142,589**	**$ 168.94**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005	2004
WHEAT PROGRAMS		
FIXED PRICE CONTRACT/BASIS PRICE CONTRACT		
Receipts (tonnes)	1 170 911	158 741
Revenue		
Sales returns paid to program	$ 224,986	$ 32,399
Net hedging activity	57,249	–
Liquidated damages	1,185	132
Net interest	43	9
	283,463	32,540
Expense		
Contracted amounts paid to producers	246,327	32,005
Net hedging activity	–	2
Administrative expense (Note 19)	299	255
	246,626	32,262
Surplus on program operations	**36,837**	**278**
Hedging gain distribution	**(5,060)**	–
Net surplus on program operations	**$ 31,777**	**$ 278**
EARLY PAYMENT OPTION		
Receipts (tonnes)	1 854 711	1 181 213
Revenue		
Program discount	$ 3,219	$ 1,831
Liquidated damages	110	204
	3,329	2,035
Expense		
Pool returns less than contracted price	299	–
Net hedging activity	305	1,757
Net interest	205	137
	809	1,894
Net surplus on program operations	**$ 2,520**	**$ 141**
Transfer to pool participants (Note 18)	**(7,354)**	–
TOTAL WHEAT PROGRAMS (Note 14)	**$ 26,943**	**$ 419**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2005		2004
DURUM PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**388**		**470**
Revenue				
Sales returns paid to program	$	85	$	108
Net hedging activity		3		–
Liquidated damages		5		1
		93		109
Expense				
Contracted amounts paid to producers		77		94
Net hedging activity		–		9
Net interest		–		1
Administrative expenses (Note 19)		–		1
		77		105
Net surplus on program operations	**$**	**16**	**$**	**4**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**531 306**		**199 937**
Revenue				
Program discount	$	379	$	546
Liquidated damages		23		47
		402		593
Expense				
Net hedging activity		123		356
Net interest		16		46
		139		402
Net surplus on program operations	**$**	**263**	**$**	**191**
Transfer to pool participants (Note 18)		**(60)**		**–**
TOTAL DURUM PROGRAMS (Note 14)	**$**	**219**	**$**	**195**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)		2005		2004
DESIGNATED BARLEY PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**46**		**–**
Revenue				
Sales returns paid to program	$	8	$	–
		8		–
Expense				
Contracted amounts paid to producers		8		–
		8		–
Net surplus on program operations	**$**	**–**	**$**	**–**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**255 682**		**555 616**
Revenue				
Program discount	$	185	$	626
Net hedging activity		34		–
Liquidated damages		9		48
		228		674
Expense				
Net hedging activity		–		208
Net interest		9		81
		9		289
Net surplus on program operations	**$**	**219**	**$**	**385**
Transfer to pool participants (Note 18)		**(47)**		**–**
TOTAL DESIGNATED BARLEY PROGRAMS (Note 14)	**$**	**172**	**$**	**385**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2005		2004
	Barley pool A six mo's ended January 31	Barley pool B seven mo's ended August 31	Barley pool crop year ended July 31
BARLEY PROGRAMS			
FIXED PRICE CONTRACT			
Receipts (tonnes)	109	–	42
Revenue			
Sales returns paid to program	$ 13	$ –	$ 7
Net interest	–	–	1
	13	–	8
Expense			
Contracted amounts paid to producers	13	–	5
Net hedging activity	–	–	1
	13	–	6
Net surplus on program operations	$ –	$ –	$ 2
EARLY PAYMENT OPTION			
Receipts (tonnes)	11 811	428 010	715 603
Revenue			
Program discount	$ 20	$ 177	$ 1,468
Net hedging activity	50	–	88
Liquidated damages	–	3	27
Net interest	17	17	–
	87	197	1,583
Expense			
Net hedging activity	–	15	–
Producer contract storage	–	–	254
Liquidated damages	2	–	–
Net interest	–	–	101
	2	15	355
Net surplus on program operations	$ 85	$ 182	$ 1,228
Transfer to pool participants (Note 18)	–	(39)	–
TOTAL BARLEY PROGRAMS (Note 14)	$ 85	$ 143	$ 1,230

Statement of cash flow

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005	2004
Increases (decreases) of cash during the year		
Cash flow from operating activities		
Pool earnings for distribution	$ 3,477,765	$ 3,914,293
Producer Payment Options program operations	12,104	1,820
Pre-delivery Top-up program	4	–
Interest earned on non-program contingency fund balance	315	278
Add non-cash items		
Depreciation on CWB hopper cars	2,634	2,650
Depreciation on other capital assets	10,239	9,388
Adjustment related to 2002-03 EPO program	–	(1,289)
Cash flow from operating activities before changes in working capital	3,503,061	3,927,140
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	(2,602)	136,035
Inventory of grain	44,116	250,672
Deferred and prepaid expenses	(30,095)	25,214
Accounts payable and accrued expenses	6,678	10,174
Liability to agents	(33,918)	(334,302)
Liability to producers for outstanding cheques	5,583	11,374
Provision for producer payment expenses	(500)	(373)
Special account	(180)	(888)
	3,492,143	4,025,046
Cash flow from financing activities		
Decrease in borrowings	(1,331,607)	(949,337)
	(1,331,607)	(949,337)
Cash flow from investing and other activities		
Accounts receivable – Credit programs	1,384,158	592,476
Purchase of capital assets	(9,305)	(9,869)
Proceeds from sale of capital assets	209	277
	1,375,062	582,884
Cash distributions		
Prior year undistributed earnings	(462,321)	(208,595)
Current year distributions prior to July 31	(2,826,852)	(3,417,892)
Non-pool Producer Payment Option payments	(246,425)	(32,106)
	(3,535,598)	(3,658,593)
Net increase in cash and cash equivalents	–	–
Net cash position at beginning of year	–	–
Net cash position at end of year	$ –	$ –

Statement of administrative expenses

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2005		2004
Human resources	$	38,208	$	40,355
Office services		3,459		3,388
Professional fees		10,181		7,033
Computer services		2,549		3,691
Facilities		1,745		2,150
Travel		2,262		1,823
Advertising & promotion		1,928		1,307
Other		838		726
Training		546		376
Depreciation		10,239		9,388
Recoveries		(1,965)		(2,229)
Total administrative expenses (Note 19)	**$**	**69,990**	**$**	**68,008**

Notes to financial statements

(dollars in thousands)

1. Act of incorporation and mandate

The Canadian Wheat Board (the Corporation) was established by *The Canadian Wheat Board Act,* a statute of the Parliament of Canada. On June 11, 1998, Bill C-4, *An Act to Amend The Canadian Wheat Board Act* continued the Corporation as a shared governance corporation, without share capital, effective December 31, 1998.

The Corporation was created for the purpose of marketing, in an orderly manner, in inter-provincial and export trade, grain grown in Western Canada. The Corporation is headed by a board of directors, comprised of 10 producer-elected and five government-appointed members. The Corporation is accountable for its affairs to both western Canadian farmers through its elected board members and to Parliament through the Minister Responsible for the Canadian Wheat Board.

The Corporation is exempt from income taxes pursuant to Section 149(1)(d) of the *Income Tax Act.*

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which require the Corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingencies. These estimates and assumptions are based on management's best knowledge of current events and actions that the Corporation may undertake in the future. Actual results could differ from those estimates.

Results of operations

The financial statements at July 31 include the final operating results for all pool accounts and programs for the crop year ended July 31, where marketing operations have been completed thereafter. In determining the financial results for such pools and programs, the accounts of the Corporation at July 31 include:

Revenue – Revenue from grain sales is recognized in the accounts at the time that shipment is made, at a value defined in the sales contract.

Inventory – Inventory of grain on hand at July 31 is valued at the amount of sales proceeds that is ultimately expected to be received as sale proceeds.

Direct operating expenses and income subsequent to July 31 – A provision is made for direct operating expenses and income occurring subsequent to July 31 relating to the marketing of grain inventories on hand at July 31. The amounts, which primarily relate to inventory storage, inventory financing and grain movement are accrued to the appropriate operating statement account and are reflected in the Balance sheet as net accounts payable.

Allowances for losses on accounts receivable

Accounts receivable from credit programs – The Government of Canada guarantees the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sales Program (CGSP) and a declining percentage, based on the repayment term of the credit, of all receivables resulting from sales made under the Agri-food Credit Facility (ACF). The Corporation assumes the risk not covered by the Government of Canada. For receivables resulting from credit sales made outside of the CGSP and the ACF, the Corporation may enter into arrangements with commercial banks, which will assume the credit risk without recourse.

Accounts receivable from non-credit sales – Shipments are made pursuant to the receipt of appropriate letters of credit issued by commercial banks that guarantee the receipt of funds by the Corporation.

Accounts receivable from advance payment programs – The Government of Canada guarantees the repayment of the principal amount due from producers resulting from cash advances made under the *Agricultural Marketing Programs Act (AMPA),* the *Spring Credit Advance Program (SCAP)* and the *Unharvested Threshed Grain Advance Program.*

With respect to receivables from credit programs, non-credit sales and advance payment programs, as a result of these guarantees and arrangements, no provision is made with respect to the possibility of debtors defaulting on their obligations. Other receivable accounts are monitored and allowance for losses is provided for where collection is deemed unlikely.

Capital assets and depreciation

Capital assets are recorded at cost and depreciated on a straight line method over their expected useful life as follows:

Asset class	Term (years)
Computer equipment	1 to 6
Computer systems development	2 to 10
Automobiles	3
Building and office improvements	3
Office furniture and equipment	10
Hopper cars	30
Building	40
Leasehold improvements	Term of lease

Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance-sheet date. Exchange adjustments arising from the translation of foreign currency denominated assets or liabilities are recognized in the period in which they occur, as a component of revenue. Borrowings in currencies other than Canadian or U.S. dollars are hedged by cross-currency interest-rate swaps and currency swaps and are converted into Canadian or U.S. dollars at the rates provided therein. The Corporation hedges U.S. dollar assets and liabilities on a portfolio basis primarily by matching U.S. dollar assets to U.S. dollar liabilities.

Sales contracts denominated in foreign currencies are hedged by foreign-exchange forward contracts. Forward-exchange contracts are translated into Canadian dollars at the rates provided therein. These amounts are recorded in revenue as an adjustment to the underlying sales transactions.

Other income and expenses are translated at the daily exchange rates in effect during the year.

The net foreign-exchange gains included in operations for the year ended July 31, 2005 are $4,151 (2004 – $2,302).

Derivative financial and commodity instruments

The Corporation uses various types of derivatives, such as swaps, forwards, futures and option contracts, in order to manage its exposure to currency, interest-rate and commodity price risks. These instruments are designated as hedges and are used for risk-management purposes. These derivative contracts are initiated within the guidelines of the Corporation's risk-management and hedging policies, which provides for limited discretionary trading within the policy's trading limits. The Corporation formally documents its risk-management objectives and strategies for undertaking the hedging transaction and the relationship between the hedged item and derivative. The Corporation assesses, both at inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Effective August 1, 2003, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline AcG13 Hedging Relationships. The Guideline does not change the Corporation's method of accounting for derivative instruments in hedging relationships. Hedge accounting is applied when there is a high degree of correlation between changes in fair values or cash flows of derivative contracts and the hedged items.

The Corporation recognizes derivative financial and commodity instruments as a hedge of the underlying exposure. Gains or losses on these contracts are recognized when the related underlying hedged transaction is recognized. Commodity contracts, while an economic hedge, do not qualify for hedge accounting. They are marked to market at the balance-sheet date, with the unrealized gains or losses disclosed as a component of Deferred and Prepaid expenses. When the gains or losses are realized, they are recorded in the same pool account or Producer Payment Options (PPO) program as the related sale or PPO program that is being hedged.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are recognized in the respective pool account or PPO program in the period in which the underlying hedged transaction is recognized. If the designated hedged item is no longer expected to occur prior to the termination of the related derivative instrument, realized and unrealized gains or losses are recognized in the pool account or PPO program in which the underlying hedged transaction was expected to be recognized.

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated.

Interest-rate contracts are used to manage interest-rate risk associated with the Corporation's funding and asset/liability management strategies. The amounts to be paid or received under single-currency and cross-currency interest-rate swap contracts are recognized in the period in which they occur, as a component of net interest earnings.

Foreign-exchange contracts are used to hedge currency exposure arising from grain sales, PPOs and funding operations. The amounts to be paid or received under forward and option contracts are recognized in the same pool account or PPO program in which the related foreign currency transaction occurs, as a component of revenue. The amounts to be paid or received from currency contracts used to hedge currency risk from funding operations are recognized in the period in which they occur, as a component of net interest earnings.

Commodity contracts are used to manage price risk arising from grain sales and PPOs. The amounts to be paid or received under futures and option contracts are recognized as a component of revenue, in the same pool account or PPO program as the related sale or PPO program that is being hedged.

Net interest earnings

Net interest earnings includes interest revenue and expenses related to accounts receivable and borrowings, bank charges, transaction and program fees on borrowing facilities and interest earned on each pool account during the pool period and until final distribution of earnings to producers.

Employee future benefits

Employees of the Corporation are entitled to specified benefits provided upon retirement or termination.

Pension plan – Effective July 1, 2003, the Corporation began administrating its own pension plan for its employees. Previously, employees participated in the *Public Service Superannuation Act (PSSA)* pension plan, administered by the Government of Canada. Currently, the Corporation is negotiating with the Government of Canada for the transfer of pension assets from the *PSSA* for employees who choose to transfer past service to the new plan. This transfer of assets from the *PSSA* will occur in the future. When the asset transfer amount is known, the value of these assets, related accrued benefit obligation and other disclosures will be presented as required by the CICA Handbook Section 3461, Employee Future Benefits.

The Corporation sponsors three defined-benefit pension plans and one defined-contribution plan. The defined-benefit components provide pensions based on years of service and average earnings prior to retirement. The defined-contribution component provides pensions based on contributions made and investment earnings. Employer contributions to the CWB Pension Plan are expensed during the year in which the services are rendered.

Other post-employment benefits – The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets, over the periods in which the employees render services in return for the benefits. The Corporation has adopted the following policies:

- The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health-care costs. Post-employment benefits include health care, life insurance, long-service allowance, unused sick leave accumulated prior to 1988 and unused vacation accumulated prior to 1996.
- The transitional obligation and actuarial gains (losses) are being amortized over the Average Remaining Service Period (ARSP), which has been actuarially determined to be 12 years (2004 – 12 years).
- Amortization of actuarial gains (losses) will be recognized in the period in which, as of the beginning of the period, the net actuarial gains (losses) are more than 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets.

3. Accounts receivable from credit sales programs

	Credit Grain Sales Program	Agri-food Credit Facility	Other credit	**2005 Total**	2004 Total
Due from foreign customers					
Current	$ –	$ 49,887	$ –	**$ 49,887**	$ 72,752
Overdue	–	–	–	**–**	772,040
Rescheduled	3,853,730	–	–	**3,853,730**	4,446,391
	3,853,730	49,887	–	**3,903,617**	5,291,183
Due from Government of Canada	23,327	–	–	**23,327**	19,920
	$ 3,877,057	$ 49,887	$ –	**$ 3,926,944**	$ 5,311,103
Credit risk					
Guaranteed by Government of Canada	$ 3,877,057	$ 48,889	$ –	**$ 3,925,946**	$ 5,309,648
Guaranteed by commercial banks	–	–	–	**–**	–
Assumed by CWB	–	998	–	**998**	1,455
	$ 3,877,057	$ 49,887	$ –	**$ 3,926,944**	$ 5,311,103

Accounts receivable balances are classified under the following applicable credit programs:

Credit Grain Sales Program

Accounts receivable under this program arise from sales to Algeria, Brazil, Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland and Russia. Of the $3,853,730 principal and accrued interest due from foreign customers at July 31, 2005, $2,801,215 represents the Canadian equivalent of $2,288,388, repayable in U.S. funds. Of the $5,218,431 principal and accrued interest due from customers at July 31, 2004, $3,932,454 represents the Canadian equivalent of $2,957,844, repayable in U.S. funds.

There were no overdue accounts receivable at July 31, 2005. In the previous year, these amounts were due from Iraq where payments for past credit sales had not been received on due dates and were still outstanding. This debt was rescheduled during the past year.

In the past year, the debt of Ethiopia and Zambia, which was $34,963 at July 31, 2004, was entirely paid by the Government of Canada. Of the amount, $400 represents the Canadian equivalent of $301, repayable in U.S. funds.

Russia also prepaid $589,576 of its debt during July 2005, which represents the Canadian equivalent of $486,649, repayable in U.S. funds.

Through a forum known as the Paris Club, the Government of Canada and other creditors have periodically agreed to extend repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country for a variety of reasons, including humanitarian concerns. All members of the Paris Club are obligated to grant the debtor country the same treatment. Under terms agreed to by the Government of Canada at the Paris Club, the Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Algeria, Brazil, Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland and Russia. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

In addition to debt rescheduling by means of extending repayment terms, the Government of Canada has agreed to reduce the debt owed to the Corporation by Poland. Under these debt reduction arrangements, amounts that otherwise would have been paid by the debtor government are paid to the Corporation by the Government of Canada. A total of $23,327 was due from the Government of Canada as at July 31, 2005 under these debt reduction agreements. Of this amount, $10,615 represents the Canadian equivalent of $8,672 which will be repayable in U.S. funds.

There is no allowance for credit losses, as the Government of Canada guarantees repayment of the principal and interest of all credit receivables under this program.

Agri-food Credit Facility

Accounts receivable under this facility arise from sales to customers in Guatemala, Indonesia, Mexico and Peru. The July 31, 2005 balance of $49,887 (principal and accrued interest) due under the Agri-food Credit Facility (ACF) represents the Canadian equivalent of $40,754 repayable in U.S. funds. The July 31, 2004 balance of $72,752 (principal and accrued interest) represents the Canadian equivalent of $54,721 repayable in U.S. funds.

There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. Management considers this balance collectable in its entirety; therefore, there is no allowance for credit losses.

Fair value

All accounts receivable resulting from sales made under credit programs as at July 31, 2005 have contractual interest-rate repricing dates under 365 days. As a result of the short terms to the repricing dates of these financial instruments, fair value approximates the carrying values.

Maturities

These accounts receivable mature as follows:

	2005	2004
Amounts due:		
Within 1 year	**$ 1,042,007**	$ 592,335
From 1 – 2 years	**509,025**	549,318
From 2 – 3 years	**533,056**	570,417
From 3 – 4 years	**770,889**	600,447
From 4 – 5 years	**106,624**	692,569
Over 5 years	**965,343**	1,533,977
Overdue	**–**	772,040
	$ 3,926,944	$ 5,311,103

4. Accounts receivable from advance payment programs

	Agricultural Marketing Programs Act	*Prairie Grain Advance Payments Act*	Spring Credit Advance Program	Unharvested Threshed Grain Advance Program	**2005 Total**	2004 Total
Due from producers	$ 104,955	$ –	$ 212,377	$ 207	**$ 317,539**	$ 301,804
Due from (to) Government of Canada	(332)	(1)	870	(7)	**530**	716
Due from (to) agents of the CWB	19,374	–	(3,649)	–	**15,725**	16,256
	$ 123,997	$ (1)	$ 209,598	$ 200	**$ 333,794**	$ 318,776

The Corporation administers the cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the Government of Canada. The Government guarantees the repayment of advances made to producers; therefore the Corporation is not exposed to credit risk. The Corporation recovers its costs of administering the programs from the Government and from producers using the program.

The Government of Canada introduced the *Agricultural Marketing Programs Act (AMPA)* in 1997 to provide producers with cash flow by advancing money for grain stored on the farm. This program replaced a previous Government of Canada program under the *Prairie Grain Advance Payments Act (PGAPA)*. The Government of Canada pays interest on advances up to $50 and the producer pays interest on any amounts in excess of $50.

The Government of Canada introduced the *Spring Credit Cash Advance Program (SCAP)* in the spring of 2000 to assist producers with spring seeding costs. The program enables producers to receive up to $50 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*.

The Government of Canada introduced the *Unharvested Threshed Grain Advance Program* in the 2002-03 crop year. The program provides cash flow to farmers who are unable to harvest their grain due to early snowfall. The program enables producers to receive up to $25 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to producers in the fall under the *AMPA*.

Cash advances issued during the year by the Corporation under these programs totalled $650,187 including $434,353 issued under the *AMPA*, $215,549 issued under the *SCAP* and $285 under the *Unharvested Threshed Grain Advance Program*.

Collections from producers and grain companies subsequent to reimbursement by the Government of Canada, plus interest on default accounts collected from producers, are remitted to the Government of Canada as these amounts are received.

Due to the timing of producer deliveries and subsequent remittance by the agent to the Corporation, a component of advance receivables is due from agents.

5. Inventory of grain

Inventory of grain at July 31 is reported at values ultimately expected to be received as sale proceeds as follows:

	2005		2004	
	Tonnes	Amount	Tonnes	Amount
Wheat	2 752 083	$ **492,078**	2 334 701	$ 520,125
Durum	1 315 303	**261,581**	1 065 995	247,404
Designated barley	231 103	**44,654**	465 267	96,592
Barley	208 805	**28,840**	52 660	7,148
	4 507 294	$ **827,153**	3 918 623	$ 871,269

6. Deferred and prepaid expenses

	2005	2004
Net results of hedging activities applicable to subsequent pool accounts	$ **1,504**	$ (26,070)
Prepaid cost of moving inventory to eastern export position	**16,344**	15,663
Deposits on commodity margin accounts	**15,854**	15,325
Purchase and lease-renewal options on leased hopper cars	**3,369**	3,859
Other	**3,116**	1,316
	$ **40,187**	$ 10,093

7. Capital assets

	2005			2004		
	Cost	Accum deprec.	Net book value	Cost	Accum deprec.	Net book value
Computer systems development	$ **68,137**	$ **39,659**	$ **28,478**	$ 61,113	$ 32,003	$ 29,110
Hopper cars	**82,768**	**70,353**	**12,415**	83,130	67,890	15,240
Computer equipment	**17,592**	**13,642**	**3,950**	16,656	12,142	4,514
Furniture and equipment	**5,312**	**3,986**	**1,326**	4,992	3,778	1,214
Land, building and improvements	**8,987**	**7,844**	**1,143**	8,679	7,694	985
Automobiles	**561**	**214**	**347**	508	135	373
Leasehold improvements	**158**	**158**	**–**	158	158	–
	$ **183,515**	$ **135,856**	$ **47,659**	$ 175,236	$ 123,800	$ 51,436

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 172 cars have been wrecked and dismantled, leaving 1,828 in the fleet. The Corporation is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

8. Borrowings

The Corporation issues debt in world capital markets. The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are unconditionally and irrevocably guaranteed by the Minister of Finance on behalf of Her Majesty in right of Canada through an explicit guarantee included in *The Canadian Wheat Board Act.*

Short-term borrowings consist of commercial paper issued by the Corporation in the Canadian, United States and Euro markets, bank loans and medium-term notes with remaining maturities of less than one year. The Corporation uses swaps in the same notional amounts and with the same terms as the underlying borrowings to convert the currency exposure to either the Canadian dollar or the U.S. dollar.

Long-term borrowings are notes issued in the Domestic and Euro Medium Term Note market with an original term to maturity between one and 15 years. The majority of the Corporation's long-term notes are structured securities where interest is calculated based on certain index, formula or market references and are redeemable by the Corporation before maturity, due to embedded call features. The Corporation uses swap contracts to mitigate currency risk and manage interest-rate risk associated with long-term borrowings. These contracts ultimately create a floating rate obligation similar to that of the Corporation's short-term borrowings and ensure that the Corporation will receive proceeds from the swap to offset currency and interest-rate fluctuations on the notes' principal and interest payments.

	Effective interest rate (%)	2005	2004
Short-term borrowings	2.10 – 3.74	$ 3,320,681	$ 5,612,617
Long-term borrowings	1.55 – 3.59	1,662,298	1,455,046
Accrued interest	–	27,068	19,130
Total borrowings	1.55 – 3.74	5,010,047	7,086,793
Less temporary investments	2.50 – 3.28	(859,519)	(1,604,658)
Net borrowings	1.55 – 3.74	$ 4,150,528	$ 5,482,135

Of the net borrowings at July 31, 2005, $2,864,270 represents the Canadian equivalent of $2,340,006 that will be repayable in U.S. funds. Of the net borrowings at July 31, 2004, $3,720,270 represents the Canadian equivalent of $2,798,247, repayable in U.S. funds.

These borrowings mature as follows:

	2005	2004
Amounts due:		
within 1 year	$ 3,347,748	$ 5,631,747
from 1 – 2 years	30,603	9,495
from 2 – 3 years	42,844	59,828
from 3 – 4 years	24,482	26,590
from 4 – 5 years	212,759	59,828
over 5 years	1,351,611	1,299,305
	$ 5,010,047	$ 7,086,793

After giving effect to interest-rate swaps, all borrowings have contractual interest-rate repricing dates of 365 days or less and, as a result, carrying values of these borrowings approximate their fair values.

9. Accounts payable and accrued expenses

	2005	2004
Accounts payable and accrued liabilities	$ 115,060	$ 77,155
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	33,628	52,106
Deferred sales revenue	7,602	20,350
	$ 156,290	$ 149,611

10. Liability to agents

	2005	2004
Grain purchased from producers	$ 452,309	$ 467,957
Deferred cash tickets	56,286	74,556
	$ 508,595	$ 542,513

Grain purchased from producers

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to the Corporation by the agents at terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for grain on hand at country elevator points and in transit at July 31, for which delivery to and settlement by the Corporation is to be completed subsequent to the year-end date.

Deferred cash tickets

Grain companies, acting in the capacity of agents of the Corporation, deposit in trust with the Corporation an amount equal to the value of deferred cash tickets issued to producers for Corporation grain. The Corporation returns these funds to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

11. Liability to producers – undistributed earnings

Undistributed earnings represent the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. Of the undistributed earnings, totalling $386,752 (2004 – $462,321), $183,706 (2004 – $257,221) was distributed to producers in an interim payment on October 25, 2005. The balance of $203,046 (2004 – $205,100) will be distributed to producers through final payments and producer car rebates.

12. Provision for Producer Payment expenses

The amount of $1,741 (2004 – $2,241) represents the balance of the reserve for producer-payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor-in-Council.

13. Special Account – net balance of undistributed payment accounts

In accordance with the provision of Section 39 of *The Canadian Wheat Board Act,* the Governor-in-Council may authorize the Corporation to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor-in-Council, upon the recommendation of the Corporation, may deem to be for the benefit of producers.

The activity in the Special Account is comprised of:

	2005	2004
Beginning of year	**$ 4,060**	$ 4,948
Transfer from payment accounts	**657**	247
Expenditures	**(822)**	(1,132)
Payments to producers against old payment accounts	**(15)**	(3)
End of year	**$ 3,880**	$ 4,060
Ending balance comprised of:		
Unexpended authorizations	**$ 714**	$ 978
Not designated for expenditure	**3,166**	3,082
	$ 3,880	$ 4,060

During the year ended July 31, 2005, the balance from payment accounts for 1996 wheat, 1997 wheat, 1997 durum and 1997 designated barley were transferred to the Special Account under Order-in-Council P.C. 2005-921.

Program activity during the 2004-05 crop year is detailed as follows:

	Unexpended at beginning of year	Authorized	Expended	Expired	Unexpended at end of year
Market development program	$ 342	$ –	$ (21)	$ –	$ 321
Canadian International Grains Institute					
Capital expenditures	405	–	(198)	–	207
University of Manitoba					
Agribusiness chair	75	–	(75)	–	–
Scholarship program	6	393	(363)	–	36
Fusarium Head Blight research					
Project for barley	–	165	(165)	–	–
Variety Identification Project (VIP)	150	–	–	–	150
	$ 978	$ 558	$ (822)	$ –	$ 714

14. Contingency fund

The Canadian Wheat Board Act provides for the establishment of a contingency fund. The contingency fund can be populated through a variety of mechanisms, including the results of operations of the Producer Payment Options (PPO) program, or other sources of revenue received in the course of operations. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $50 million. The components of the contingency fund are described below:

Producer Payment Options program

The Corporation has implemented payment alternatives for producers. The Fixed Price Contract (FPC) and Basis Payment Contract (BPC) provides producers with the opportunity to lock in a fixed price or basis for all, or a portion of their grain, by October 31, three months after the beginning of the crop year. Full payment for the grain is received immediately after it has been both delivered and priced, and the producer is not eligible for other payments from the pool account. The Early Payment Option (EPO) provides producers with a greater portion of their expected final pool price at time of delivery, while still remaining eligible for other payments from the pool account. The Pre-delivery Top-up (PDT) provides producers who have taken a fall cash advance to apply for an additional per-tonne payment for their grain prior to delivery. Repayment is received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. Producers who participate in the PDT are charged an administration fee, with any surpluses credited to the contingency fund.

The surplus or deficit arising from the operation of these programs is transferred to a contingency fund, so that net operating results will not affect the pool accounts.

Other

As provided for under *The Canadian Wheat Board Act,* interest earnings from the barley pool have been transferred to the contingency fund. The transfer amount is based on a specific formula approved by the board of directors. The formula ensures that a fair amount of interest earnings, on a per-tonne basis, is allocated to the barley pool and the distorting effect of certain costs in years when pool volume is unusually low is mitigated. Consistent with the treatment applied to the pools and PPO program, the surplus is not specifically funded and earns interest at the Corporation's weighted-average cost of borrowing.

For the current year, the surpluses from the PPO programs that should be transferred to the contingency fund would result in the balance exceeding $50 million. As a result, combined with the requirement in *The Canadian Wheat Board Act* that all revenue generated less the cost of operations be distributed, $7.5 million has been distributed to the participants of the pool accounts.

The 2002-03 wheat pool deficit payment from the Government of Canada and related accounting treatment between the wheat pool account and the wheat EPO accounts resulted in a charge of $1,288,663 to the contingency fund.

The contingency fund balance at July 31, 2005 is detailed as follows:

	Producer Payment Options program						**2005**	2004
	Wheat	Durum	Des. barley	Barley	PDT	Other	**Total**	Total
Opening surplus, beginning of year	$ 3,795	$ 185	$ 385	$ 1,470	$ –	$ 12,618	**$ 18,453**	$17,235
Transferred from pool accounts	–	–	–	–	–	2,278	**2,278**	–
Surplus from PPO program	26,943	219	172	228	4	–	**27,566**	2,229
Interest earned on non-program fund balances	–	–	–	–	–	315	**315**	278
Adjustment related to 2002-03 EPO program	–	–	–	–	–	–	**–**	(1,289)
Closing surplus, end of year	$ 30,738	$ 404	$ 557	$ 1,698	$ 4	$ 15,211	**$ 48,612**	$18,453

15. Inventory adjustments

Inventory adjustments captures the related dollar impact, at the current initial price, of changes in grade and protein of the grain delivered by producers from the grain that is ultimately available for sale.

Overall promotion in the grain handling system is disclosed as an expense to the pool, because the Corporation compensates grain companies for the increase in current initial-price value created by positive blending activities. Generally, there is an overall benefit to the pool to the extent that the greater sales value returned to the pool from selling higher-quality grain exceeds the increase in the initial value.

In the case of demotions, the opposite is true. The pools' overall sales value will be lower from having lower-quality grain to sell, compared to that which was reported and upon which the Corporation must still make future adjustment, interim and final payments. This loss is partially mitigated because the grain companies are only reimbursed the value of the lower-quality grain, whereas they have paid the farmer the higher initial price of the higher-quality grain originally reported as delivered.

16. Other grain purchases

Other grain purchases is primarily made up of late receipts, inventory overages and inventory shortages. Late receipts arise from producers' deliveries subsequent to the previous pool period close. Overages and shortages occur when the Corporation's agents' inventory records differ from those of the Corporation. Acquired overages and late receipts are recorded as an expense to the pool, with the pool benefiting to the extent that the ultimate sales proceeds of this grain exceed its cost. Shortages must be settled by the Corporation's agents at export price so that the pool is not negatively impacted by the disappearance of recorded stocks.

17. Other direct expenses

Other direct expenses is primarily made up of program expenses, agents' commissions, fees for inspection and testing of grain, Corporation-owned and leased hopper cars and demurrage.

18. Other income

Other income is primarily made up of the Freight Adjustment Factor recovery and recovery of charges, deducted by the Corporation's agents at time of producer delivery, which were subsequently not incurred by the agent. The most significant charge recovered is the recovery of the rail-freight cash ticket deduction when grain moves to a location other than terminal position.

As discussed in Note 14 Contingency Fund, a portion of the surpluses generated by the PPO program was distributed to the participants of the pool accounts. These surpluses amounted to $7,500 and were included in Other Income.

19. Administrative expenses

	2005	2004
Allocated as follows:		
Wheat pool	$ **47,508**	$ 45,362
Durum pool	**13,663**	11,288
Designated barley pool	**6,262**	7,838
Barley pool A	**104**	3,093
Barley pool B	**1,675**	–
Total to pools	**69,212**	67,581
Wheat FPC/BPC PPO program	**299**	255
Producer payment accounts	**479**	172
Administrative expenses	$ **69,990**	$ 68,008

Administrative expenses, less the expenses attributable to the distribution of final payments and the incremental costs related to the PPO program, is allocated to each pool on the basis of relative tonnage.

20. Commitments

Hopper car leases

The Corporation administers leases for grain hopper cars for the Government of Canada, with lease terms of 25 years expiring in 2006. Of the 1,750 cars leased under the original agreements, 86 have been wrecked and dismantled, leaving 1,664 cars in this fleet. All lease costs to the end of the original lease periods are recoverable from the Government of Canada and not charged to the pool accounts. Total payments associated with these leases for the year ended July 31, 2005 were $13,518 (2004 – $14,630).

In 1995, the Corporation purchased an option to extend the lease agreement on 250 hopper cars for a five-year term at a bargain lease rate. Effective October 1, 2000, the Corporation exercised this right on the 244 remaining cars. The cost of the option is being amortized over the term of the five-year extension. The lease payments under this lease-extension option are not recoverable from the Government of Canada and will be paid directly by the pool accounts. Effective April 2001, the Corporation sublet the remaining 241 cars to a third party for a term expiring October 2005. The Corporation terminated both the lease and sub-lease on October 10, 2005.

Between 1991 and 1995, the Corporation purchased options to acquire 1,550 of the Government of Canada cars at the end of the lease terms in 2006. Of these cars, 77 cars have been wrecked and dismantled, leaving 1,473 cars, which may be purchased at a total cost of $17,393 in U.S. dollars. The cost of these options is recorded in Deferred and Prepaid Expenses. On June 30, 2005, the Corporation gave the lessors notice to purchase these cars. Purchase dates have been set between December 30, 2005 and July 2, 2006.

On September 28, 2005, the Corporation exercised its right of first refusal to purchase 191 hopper cars relating to a lease agreement for which a purchase option did not exist. These hopper cars will be purchased by the Corporation on January 2, 2006 at an approximate cost of $2,865 in U.S. dollars.

Operating leases

The Corporation has entered into operating leases for premises and office equipment. Lease terms are for periods ranging from one to six years, expiring between August 2005 and October 2011. The Corporation has the option to renew most of these leases for additional terms ranging from one to three years. Total lease payments for premises and office equipment expensed in the year ended July 31, 2005 were $747 (2004 – $876).

Lease costs on premises and office equipment are charged to Administrative Expenses. Commitments under operating leases are as follows:

	Hopper cars (US$)	Premises and office equipment (Cdn$)
2006	93	591
2007	–	217
2008	–	79
2009	–	52
After 2009	–	60

Capital leases

The Corporation is transitioning its vehicles from company-owned to capital-lease arrangements. The first set of vehicles was transitioned August 1, 2005, with the last vehicle being leased by June 2007. These capital leases will be accounted for in 2005-06 as an acquisition of an asset (net of accumulated amortization) and an assumption of an obligation. The vehicles under the capital lease will be amortized on a straight-line basis over their economic life. Estimated future payments on vehicles leased to November 17, 2005 are:

	Vehicles (Cdn$)
2005-06	41
2006-07	48

Other

The Corporation has agreed to fund the operations of the Canadian International Grains Institute (CIGI) for a base amount of $1,666 annually, through to 2008.

21. Derivative financial and commodity instruments

The Corporation enters into single and cross-currency interest-rate swap contracts to manage its funding costs and to implement asset/liability management strategies designed to reduce exposure resulting from currency and interest-rate fluctuations.

The Corporation also enters into foreign-exchange forward and currency-swap agreements with financial institutions to hedge currency exposure arising primarily from grain sales and funding operations.

These financial instruments qualify for hedge accounting and are not recognized in the Balance sheet. As at July 31, 2005 the total notional amount of these financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2005			2004		
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest-rate contracts						
Single-currency interest-rate swaps	**$ 645,779**	**$ 2,718**	**$ 9,815**	$ 732,575	$ (2,791)	$ 3,737
Cross-currency interest-rate swaps	**1,075,779**	**(13,698)**	**32,757**	722,471	(24,560)	8,125
	1,721,558	**(10,980)**	**42,572**	1,455,046	(27,351)	11,862
Foreign-exchange contracts						
Forwards	**1,046,171**	**9,106**	**14,091**	1,412,962	24,253	29,084
Currency swaps	**157,014**	**(502)**	**1,756**	815,372	(6,519)	6,879
	1,203,185	**8,604**	**15,847**	2,228,334	17,734	35,963
	$ 2,924,743	**$ (2,376)**	**$ 58,419**	$ 3,683,380	$ (9,617)	$ 47,825

As of the statement date, all foreign-exchange contracts mature within one year. The interest-rate contracts with maturities between less than one year, one and five years and beyond five years had notional amounts outstanding of $27,582, $310,687 and $1,383,383 respectively. The swap contracts rates ranged between 1.55 per cent and 3.59 per cent.

The net fair value of interest rate and foreign-exchange contracts refers to the estimated net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies including net present value analysis and quoted market prices, where available. These estimates of fair value are affected by the assumptions used and, as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The Corporation is only exposed to credit risk on contracts with a positive fair value. The credit-risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the financial risk-management policies approved by the Corporation's board of directors. Master-netting agreements are used to reduce credit risk from potential counterparty default. The largest notional amount contracted with any institution as at July 31, 2005 was $938,262 (2004 - $780,784) and the largest credit risk with any institution as at July 31, 2005 was $14,921 (2004 – $8,957).

The Corporation also enters into commodity contracts, including futures and options, for wheat and barley in the exchange markets, as a normal course of business. The contracts outstanding at July 31 are carried in the financial statements at fair value.

22. Employee future benefits

Employee future benefits relates to the Corporation's pension plans and the other post-employment benefits.

Total cash payments

Total cash payments for Employee future benefits, consisting of cash contributed by the Corporation to its defined-benefit and defined-contribution plans, plus cash payments made directly to employee and beneficiaries and third-party service providers for the benefit plans, were $4,388 (2004 – $4,962).

Pension plans

The Corporation's pension expense for the year ended July 31, 2005 was $2,968 (2004 – $3,970).

An actuarial valuation of the Corporation's pension plan is required annually for the first three years of existence. The Corporation is not able to disclose the full pension obligation or plan assets for the year ended July 31, 2005 as required by GAAP, because the actuarial valuation is not complete, pending completion of the pension-transfer asset value.

Defined-benefit pension plan assets:

These tables include the defined-benefit components of the Corporation's pension plans, but exclude the pension-transfer value from the *PSSA* plan.

Change in fair value

	2005	2004
Balance, beginning of year	$ **5,314**	$ 427
Actual return on plan assets	**802**	205
Employer contributions	**5,065**	3,868
Employee contributions	**1,110**	1,191
Benefits and expenses	**(2,591)**	(377)
Balance, end of year	$ **9,700**	$ 5,314

The percentages of plan assets, based on market values at July 31, are:

Asset category	**2005**	2004
Equity securities	**59%**	43%
Debt securities	**32%**	28%
Other	**9%**	29%
Total	**100%**	100%

Defined-contribution plan:

The Corporation expensed $38 (2004 – $32) to the defined-contribution component of the Corporation's pension plan. Employees contributed $186 (2004 – $142) to the defined-contribution component of the Corporation's pension plan as at July 31, 2005. Benefits paid from the defined-contribution component were $17 (2004 – $13).

Other post-employment benefits

The Corporation measures its accrued benefit obligations for accounting purposes as at July 31, 2005. The most recent actuarial valuation was completed as of July 31, 2004 with the next required valuation as of July 31, 2007. The Corporation amended its other post-employment benefits effective August 1, 2006. The financial effect of this amendment is not known. As a result of the proposed changes, an actuarial valuation will be completed sooner than July 31, 2007.

The following tables present information related to post-employment benefit plans provided by the Corporation, including amounts recorded on the Balance sheet and the components of the cost of net benefits for the period.

Reconciliation of accrued benefit obligation:

	2005	2004
Accrued benefit obligation, beginning of year	$ 26,858	$ 18,616
Employee contributions	–	–
Benefits paid	(1,420)	(992)
Current service cost	904	626
Interest cost	1,655	1,106
Curtailment*	682	1,227
Curtailment recognized	(682)	(1,227)
Curtailment gain	(583)	–
Actuarial loss	4,073	7,502
Accrued benefit obligation, end of year	**$ 31,487**	$ 26,858

Reconciliation of the accrued obligation and plan deficit to accrued liability:

	2005	2004
Fair value of plan assets	$ –	$ –
Accrued benefit obligation	31,487	26,858
Funded status – plan deficit	(31,487)	(26,858)
Unamortized net actuarial (gain) loss	10,586	7,502
Unamortized transitional obligation	7,481	8,911
Accrued benefit liability, end of year	**$ (13,420)**	$ (10,445)

The accrued benefit liability included on the Corporation's Balance Sheet is:

	2005	2004
Accrued benefit liability, beginning of year	$ (10,445)	$ (7,668)
Current service cost	(904)	(626)
Interest cost	(1,655)	(1,106)
Benefits paid	1,420	992
Amortization of transitional obligation	(748)	(810)
Amortization of net actuarial loss	(406)	
Curtailment*	(682)	(1,227)
Accrued benefit liability, end of year	**$ (13,420)**	$ (10,445)

* During 2003-04 and 2004-05, staff reductions resulted in curtailment, which has been fully expensed by the Corporation

The Corporation's expense elements with respect to other post-employment benefits are:

	2005	2004
Current service cost	$ 904	$ 626
Interest cost	1,655	1,106
Amortization of transitional obligation	748	810
Amortization of actuarial loss	406	–
Curtailment	682	1,227
Actuarial loss	10,586	7,502
Net cost (before adjustments)	14,981	11,271
Adjustments-actuarial loss	(10,586)	(7,502)
Total expense included in Administrative expenses	**$ 4,395**	$ 3,769

The weighted-average assumptions at the measurement date used in the calculation of the Corporation's benefit obligation are shown in the following table:

	2005	2004
Discount rate	**5.25%**	6.25%
Rate of compensation increase	**4.00%**	4.00%
Medical cost trend rate	**10.00%**	10.00%
Medical cost trend rate declines to	**5.00%**	5.00%
Medical cost trend rate declines over	**5 years**	5 years
Dental cost trend rate	**3.00%**	3.00%

Sensitivity analysis:

Assumed medical/dental cost trend rates have a significant effect on the amounts reported. A one percentage-point change in assumed rates would have the following effects for 2005:

	Increase	Decrease
Accrued benefit obligation	$ 4,570	$ (3,536)
Current service and interest cost	$ 518	$ (388)

23. Contingent liability

On September 13, 2002 the North Dakota Wheat Commission (NDWC) and the U.S. Durum Growers Association filed anti-dumping (AD) and countervailing duty (CVD) petitions against imports of Canadian hard red spring wheat (HRS) and durum. On October 3, 2003, the U.S. International Trade Commission (ITC) dismissed the durum petition by a 4-0 vote. However, with respect to HRS, the ITC ruled 2-2 that Canadian HRS imports caused injury to U.S. HRS producers. As a result, AD and CVD tariffs totalling 14.15 per cent ad valorem were in place pending the completion of certain appeals launched by the CWB. The appeals, taken under NAFTA with subsequent remands to the appropriate U.S. administrative agency, were ultimately successful. The CVD tariff was reduced from 5.29 per cent to 2.54 per cent. Most significantly, however, on October 5, 2005 the ITC voted 4-1 that Canadian HRS imports did not injure U.S. producers. On October 12, 2005 the NDWC filed a challenge of the ITC's ruling with the NAFTA Secretariat. That challenge should be disposed of early in 2006. If the challenge is dismissed, all tariffs should be removed shortly thereafter.

24. Comparative figures

Certain of the prior year's figures have been restated to conform with the current year's presentation.

Glossary of financial terms

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CWB

WE'RE EVOLVING

2005-06 ANNUAL REPORT

CWB
The Canadian Wheat Board

VISION

Canadian farmers innovatively leading the way in the global grain market.

MISSION

Creating a sustainable competitive advantage for farmers and customers through our unique business structure, innovative marketing, superior service, profitable investments and effective partnerships.

CONTENTS

CORPORATE PROFILE

The CWB markets western Canadian wheat, durum wheat and barley in Canada and throughout the world.

All sales revenue, less marketing costs, is returned to farmers. The CWB is controlled by a board of directors that is comprised of 10 farmer-elected members and five federal government appointees. As a key international grain trader and a major earner of foreign exchange, the CWB and Prairie wheat and barley producers compete successfully with other major players in the grain industry.

FINANCIAL HIGHLIGHTS

	2005-06	2004-05	2003-04	2002-03	2001-02
Combined pool operating results ($ millions)					
Revenue	**$3,498.3**	$3,739.3	$4,136.2	$3,339.9	$4,379.2
Direct costs	**458.3**	417.2	369.7	318.7	384.5
Net revenue from operations	**3,040.0**	3,322.1	3,766.5	3,021.2	3,994.7
Other income	**149.3**	163.4	161.1	132.7	188.5
Net interest earnings	**36.1**	53.4	56.1	54.8	91.6
Administrative expenses	**(69.8)**	(69.2)	(67.6)	(54.1)	(50.4)
Grain industry organizations	**(2.1)**	(1.6)	(1.8)	(1.8)	(1.7)
Earnings for distribution	**$3,153.5**	**$3,468.1**	**$3,914.3**	**$3,152.8**	**$4,222.7**
Receipts from producers (000's tonnes)					
Wheat	**11 971.2**	13 296.3	12 376.0	8 696.0	13 331.0
Durum	**4 308.9**	3 824.0	3 079.7	3 804.0	3 246.0
Designated barley	**1 464.7**	1 752.5	2 138.4	891.0	2 205.0
Feed barley (pool A)	**915.8**	29.0	–	–	–
Feed barley (pool B)	**127.5**	468.7	–	–	–
Barley	**–**	–	844.0	40.0	54.0
Total	**18 788.1**	**19 370.5**	**18 438.1**	**13 431.0**	**18 836.0**

A MESSAGE FROM THE CHAIR OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

Nov. 15, 2006

Ask farmers and they'll tell you that farming today bears little resemblance to farming 70 years ago. In the early part of the century, horses pulled ploughs and weeds were picked by hand. Farmer-controlled grain companies dominated the Prairie landscape. Today, global positioning systems navigate tractors and combines, while precision sprayers filled with plant-specific herbicides take care of the weeds. The farmer grain co-ops are gone, leaving a grain-handling industry increasingly dominated by multinational players.

If there has been one constant, it's the CWB's mandate to maximize returns for western Canadian farmers. But, as farmers' marketing partner, we've changed too.

From governance changes designed to place control of the CWB firmly in the hands of farmers, to the introduction of Producer Payment Options (PPOs) designed to give farmers more marketing flexibility, each milestone carries its own significance and helps paint a picture of how the CWB has evolved over the years.

Left Ken Ritter, right Adrian Measner

A major turning point for the organization occurred in 1998, when control of the CWB passed from a board of government-appointed commissioners to a modern, corporate board of directors. The CWB shed its status as a federal agent of the Crown and emerged as a commercial marketing corporation. Today, it is governed by a 15-member board of directors, comprised of 10 farmers elected by their peers, four members appointed by the federal government and a CEO chosen collaboratively by the board and government.

CHANGING THE GOVERNANCE ENSURED THAT FARMERS HAVE THE ULTIMATE SAY ON THE POLICIES AND STRATEGIC DIRECTION OF THEIR GRAIN-MARKETING AGENT.

It wasn't long before farmers demonstrated how having their voices heard at the board table could affect the business. Shortly after the first democratically elected farmer directors took office, the CWB introduced PPOs. These pricing options were designed to provide more flexibility over how and when farmers get paid for their grain. The PPOs were designed to mimic the open market environment, while keeping the proven benefits of the single desk and price pools intact.

Both the PPOs and governance changes were significant, but an organization needs to constantly evolve to remain healthy, competitive and responsive. It was with this thinking in mind that the board of directors began to ponder the longer-term future of the CWB. After consulting with farm leaders and the business community's best minds on how to construct a CWB ready to meet the future, the board released its vision for the future: *Harvesting Opportunity*.

This vision focuses on empowering farmers to prosper in the global marketplace by enhancing the single desk and creating a new business model comprised of a modern grain-marketing corporation – independent of government – with a venture capital subsidiary to generate additional value for farmers through commercial investments.

The farmer-controlled board of directors developed the plan because it plays to our competitive strengths, creates farmer power in grain handling and transportation and provides a realistic platform for farmer investment in value-added opportunities.

Why choose to build on the single desk? Because it gives farmers the power to compete in an industry that is increasingly globalized and dominated by a handful of vertically integrated multinationals. It's why we can brand western Canadian wheat and barley as the best in the world and it's why customers pay a premium for that grain.

In short, the single desk is the key to our competitive advantage. Study after study has shown it adds millions of dollars to the bottom lines of western Canadian farmers. As such, it also had to be the cornerstone of any sound business plan that sought to enhance the position of western Canadian farmers as leaders in the global grain market.

But we're being challenged on this vision. At the time of writing this message to you, the federal Conservative government is manoeuvring to follow through on a campaign promise to end single-desk selling for western Canadian wheat and barley.

While farmers may be divided about whether that is the best course for their future, the vast majority are united in one belief: farmers – and farmers alone – should have the final say over any changes to the way their grain is marketed.

A key principle of empowerment is the ability to have a say over your own destiny. That's why the CWB has chosen a plan that puts farmers in full control. Our vision builds on what farmers have told us in surveys, meetings and through the election of their directors – they want an innovative marketing agency that leverages the single desk, has an expanded role in value-added and aggressively brands western Canadian wheat and barley as the best in the world. *Harvesting Opportunity* is about listening to what farmers are saying and providing them with the tools they need to thrive and prosper.

It's about a partnership built on a solid foundation – one that enables farmers to move with confidence into the future.

Ken Ritter

Ken Ritter
Chair, board of directors

Adrian Measner

Adrian Measner
President and Chief Executive Officer

WE'RE EVOLVING...

Farming has evolved through a vital process of adaptation. When the CWB began more than 70 years ago, farmers faced physical and environmental hardship. Today, farmers have the benefit of technological advancements in the machinery and technology they use, but they face challenges in the marketplace.

Today, the global market is increasingly consolidated, controlled by a handful of very powerful multinationals and distorted by foreign government subsidies. On the surface, the odds seem firmly stacked against Canadian farmers.

Scratch that surface, however, and you will find out why western Canadian farmers continue to persevere. They are employing innovation, ingenuity and dogged determination to overcome the odds.

Inside these pages, you'll find the stories of farmers who have adopted approaches that ensure the survival of their farms. In many cases, their trials and triumphs have affected their families, their communities and their industry.

It is their stories that have inspired the CWB's approach to its business.

1935 • The CWB is created and offices are established in Winnipeg, Calgary, Vancouver and Montreal, and London, England.

1949 • Parliament amends *The Canadian Wheat Board Act* to extend the CWB's marketing responsibility to encompass oats and barley.

1955 • The CWB opens an office in Rotterdam (Netherlands) for seven years.

1961 • The CWB makes its first long-term sales agreement with China.
• The CWB opens an office in Tokyo, Japan, to better serve this important market.

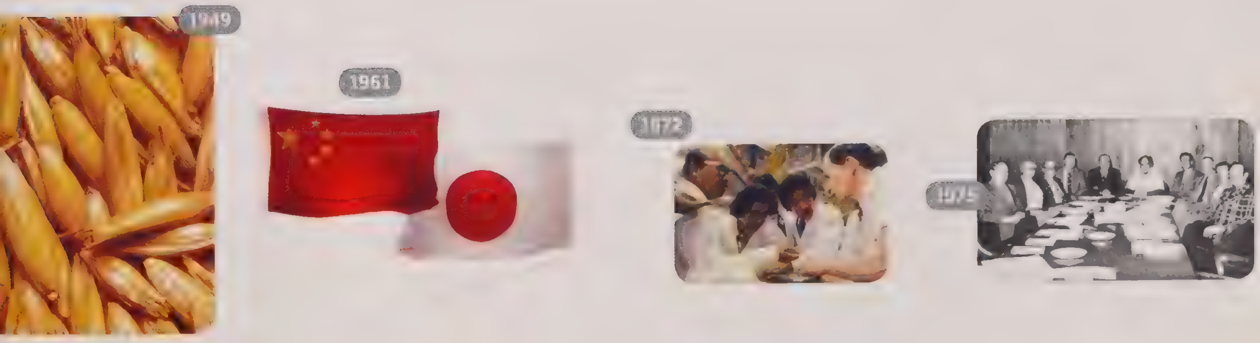
1963 • The CWB signs a three-year agreement with the Soviet Union.

1972 • The Canadian International Grains Institute (CIGI) is created to promote the Canadian grain industry through educational programming and technical activities. The onsite pilot bakery and mill become important support tools for customers of Canadian wheat.

1975 • Members of the CWB's Farmer Advisory Committee become elected rather than appointed.

1935


Adapting to change...
Capitalizing on opportunities...
Building a strong base for the future...


1949
1961
1972
1975

FINDING STRENGTH IN ADVERSITY...

The story of Red Coat Road and Rail

Viceroy, Saskatchewan is a town that's clearly seen better times. Its old and abandoned buildings have even earned it a place on a Web site listing Canada's ghost towns.

But this community is not dead.

Its lifeline is a stretch of railway that extends 114 kilometres, from Pangman to Assiniboia. In 1997, this stretch of track was one of hundreds of kilometres of branch line targeted for abandonment by CP Rail. The railway argued that traffic on this "rarely used" line was so light, it simply wasn't feasible to run and maintain it any more.

1989 • Oats are removed from the marketing authority of the CWB, leaving it responsible for the marketing of western Canadian wheat and barley for export and domestic human consumption.

1993 • A Continental Barley Market is created through a federal ministerial decision. The action was challenged and reversed by a federal court ruling. The experiment lasts just six weeks – from August 1 to September 10.

1994 • The CWB opens an office in Beijing, China.

1995 • The first shipment of "Warburtons" wheat, grown under the CWB's Identity Preserved Contract Program (IPCP), sails from Thunder Bay.

1997 • The CWB signs a three-year, 1.2-million-tonne supply agreement with Grupo Altex – one of the largest flour milling companies in Mexico and the primary flour supplier to Grupo BIMBO (Latin America's largest baking company)
• An external Performance Evaluation of The Canadian Wheat Board, authored by Drs. Kraft, Furtan, and Tyrchniewicz, concludes that the single desk adds nearly $246 million each year to farmers' pockets.

Historically, having an active rail service had been an economic necessity for the small Prairie towns around it. As service disappeared, so too had some of the towns. But before the line could be officially laid to rest, federal legislation dictated that it first had to be offered to short line operators who were interested in purchasing it. The legislation provided an opening and a clear call to action for the people in the eight communities dotting the 114-kilometre-long line.

"We knew that once the rail line went, so would the communities," recalls Kevin Klemenz, one of four farmers who founded the producer-owned short line now known as Red Coat Road and Rail (RCRR). "We felt abandoned – like they were just leaving us to fold up. I personally thought, 'Let's not do it.'"

It wasn't easy. The group had to raise $1.1 million and come up with a plan for how it would maintain the track – and make it profitable. In the meantime, grain companies were pulling up stakes. The iconic wooden grain elevators that once dotted the Prairie landscape were being abandoned in favour of regional, concrete monoliths.

"We were told we were going in the wrong direction – that trucking grain to these huge terminals was the way to go," Klemenz recalls. "We were actually told by one finance company that we were going against the wave of the future."

The odds seemed insurmountable. Still, the people here forged ahead, and worked together to raise the money needed to purchase the line. Four farmers – Ed Howse, Loni McKague, Roger Dahl and Klemenz – went above and beyond what might have been expected. These farmers personally signed loans for more than $500,000 to raise the capital needed to cement the deal.

Now, less than 10 years later, it would be hard to question the group's decision. Each year, more and more producer cars are loaded here – 584 last year, compared to 144 in their first year of operation. Loading producer cars has saved farmers thousands of dollars in trucking, handling and elevation charges. That money is being reinvested in producer car facilities all along the line – even within a stone's throw of the region's main high-throughput terminal.

When Klemenz reflects on the story of the RCRR, he likens it to the CWB's own beginnings – innovation rooted in farmers' need to deal with an imbalance of power and have some clout in an industry dominated by companies responsible to shareholders, not farmers.

"FARMERS WERE GETTING RAKED OVER THE COALS. IN BOTH CASES, WE HAD TO DO SOMETHING."

Klemenz says the CWB plays a key role in the success of short line and producer car groups like RCRR – not only because of its role in administering the cars, but also because it is an advocate for western Canadian farmers.

"As farmers, we knew we would be looked after through the CWB and that we had a strong voice to deal with the railways and grain companies," he said. "We actually feel that the loss of the CWB would mean the loss of our rail line. What grain company would want to unload producer cars?"

Today, Klemenz stands in the tiny rural municipality building that doubles as Viceroy's credit union and points to pictures on the wall that mark the day the line was officially turned over to the group. The ability to overcome adversity is a strong part of farming history, he says; it is something rooted in the unbreakable spirits of those who call the Prairies home.

"If you believe in your communities – and you're willing to fight for them – something can be done. If people pull together, this is what can happen."

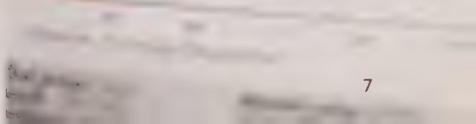
1994

1995

Warburtons FAMILY BAKERS Since 1876

1997

1997



BECOMING STRONGER OVER TIME...

The Tebbs' philosophy on research and development

Over the years, a lot has changed on the Tebbs' farm near Airdrie, Alberta. At one time, you could barely see the city from their fields of wheat and barley. Now, new business districts and housing developments are nearly touching the farm's edges. Fuelled by Alberta's booming oil and gas industry, it's been almost impossible to contain the growth of places like Airdrie. Like so many other bedroom communities in Alberta, it's straining at the seams and eating up the countryside.

Today, the land that four generations of Tebbs have caringly cultivated for more than 87 years has new value. It's become a lucrative commodity – not for its ability to grow the crops that feed the population, but because it can feed a city's insatiable need for expansion.

1998 • The CWB's governance passes into the hands of farmers. Ten farmers are democratically elected by their peers to steer the organization.

1999 • The CWB and Canadian Pacific Railway (CPR) reach an out-of-court settlement in a level of service complaint. The $15 million settlement is returned to Prairie-farmers through the CWB. On the same claim, the CWB reaches a commercial settlement with Canadian National Railway Co. (CN) outside the courts.
• The CWB begins market development projects for AC Metcalfe – a new barley variety that shows improved agronomic properties for farmers. By 2002, it overtakes Harrington as the leading two row malting barley variety grown in Western Canada

2000 • The CWB introduces its first Producer Payment Option (PPO). Today, there are four different PPOs – the Daily Price Contract, Basis Price Contract, Early Payment Option and Fixed Price Contract.
• The Canadian Malting Barley Technical Centre (CMBTC) is opened to provide technical support for customers that purchase western Canadian malting barley.
• CIGI introduces a pilot pasta plant that enables it to provide expanded customer support and applied research to durum customers.

1998

This year, the Tebbs planted and harvested their last crop on this land. Soon, most of their fields will be engulfed by urban development. It seems only appropriate that, as they prepare to bid farewell to the family homestead and move to a new farm near Olds, Alberta, their family's land has yielded a crop that will be marketed as premium-quality western Canadian malting barley.

It has been a good year – thanks in part to Mother Nature, but also because the Tebbs have access to the tools they need to get the job done. For them, it has meant having the right variety of seed that will not only grow in Western Canada, but thrive in a climate of extremes.

As fourth-generation farmers, the Tebbs have seen a lot of change in the industry – not all of it good. They know that being competitive means having access to new and better varieties that boast better yields and have higher disease resistance characteristics.

The father-son team say being a part of the CWB's Identity Preserved Contract Program (IPCP) is important to their business. This year, the Tebbs chose to grow the AC Metcalfe and CDC Copeland varieties of barley. These varieties, which are promoted through the CWB's IPCP, have all but replaced older varieties that were more susceptible to disease.

WHENEVER THE OPPORTUNITY HAS COME UP TO HELP DEVELOP NEW VARIETIES THROUGH AN IPCP, THE TEBBS HAVE TAKEN ADVANTAGE OF IT.

"We're looking for a variety that weighs up good and yields well; more importantly, we want a variety that someone wants," muses Wayne Tebb, Barry's father. "The bottom line is finding a variety you can make money on."

Michael Brophy, the CWB's malting barley technical expert, says varieties such as CDC Copeland emerged from a well-coordinated breeding and registration system. It's a system that ensures growers are provided with improved agronomic characteristics on yield and disease, while end-use customers – like brewers and maltsters – get a better quality product.

"Maltsters are definitely cautious – they don't want to make any changes in their recipe until they are sure it will not impact quality," Brophy says. "The most important thing to brewers is that customers don't taste a difference."

Brophy says that is why the CWB invests considerable resources in the customer testing of these new varieties and continues to provide technical support for expanding the markets for new varieties.

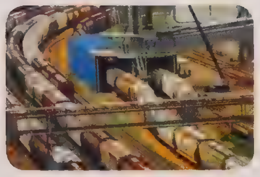
Throughout the two-year introduction of CDC Copeland, the CWB's team of product development specialists worked closely with researchers at the Canadian Malting Barley Technical Centre (CMBTC) to ensure customers, like those at China's Tsingtao beer, were happy with the changes. Bottled by China's largest brewery, Tsingtao is exported to more than 40 countries and accounts for 80 per cent of the total Chinese beer exports.

"Tsingtao representatives came over to Canada for a month to work hands-on with CDC Copeland in the CMBTC pilot breweries," Brophy recalls. "After their wide-scale testing, they were convinced it wouldn't impact smell, taste or overall quality."

Back on the Tebbs' farm near Airdrie, Barry says this type of product development demonstrates how the CWB adds value for farmers.

"We have to stay on top of these things in order to be able to compete with other countries like Australia and the United States," he says. "There is no point in growing it, unless there is a market for it."

1999



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2000

2000

ADAPTING TO YOUR ENVIRONMENT...

The story of Elkwater Hutterite Colony

In many ways, a visit to Elkwater Hutterite Colony yields the things you might expect. Its 95 members share a deep sense of faith, communal values and a single-minded work ethic.

At this colony, not far from Medicine Hat, Alberta, purpose is rooted in the religious philosophy that all members are provided for and nothing is kept for personal gain.

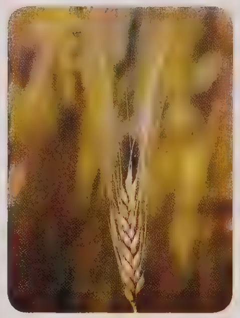
2001
- A U.S. International Trade Commission (ITC) report concludes that Canadian durum was sold into the U.S. at prices equal to or higher than U.S. durum in all but one of 60 months examined.

2002
- The CWB sells its first tonne of Canada Western Hard White Spring (CWHWS) wheat.
- Canada's Auditor General releases the results of a special audit examining the CWB's financial accounting. The report concludes that the financial accounting and reporting systems of the CWB are well-managed, economic and efficient.
- The U.S. launches its 13th trade challenge against Prairie farmers. This one seeks anti-dumping and countervailing duties on imports of durum and hard red spring wheat from Canada.

2004
- Monsanto opts to shelve plans to introduce its Roundup Ready genetically-modified wheat after the CWB and other industry organizations voice their objections on behalf of farmers.
- A World Trade Organization (WTO) dispute settlement panel designates the CWB as a fair trader.

2005
- Two feed barley pools per crop year are created in order to give farmers better price signals and to improve the CWB's ability to attract deliveries when sales opportunities are favourable.
- The Canadian Wheat Board Centre for Grain Storage Research at the University of Manitoba opens.

2001



Making it work means each man, woman and child plays a specific role. Learning that everyone has something to contribute is a value children are taught early in life. Chores at the greenhouse are a regular part of their after-school routine. The women are tasked with all domestic activities, including cooking, cleaning and caring for the children; each man is assigned a job in the colony's highly diversified farming operation.

When it comes to business on the colony, you might be surprised by its obvious embrace of technology. This farm operation is nothing short of state-of-the-art – from the dairy and hog barns to the fleet of farm machinery used to care for the crops.

In fact, every piece of equipment here is fitted with Global Positioning Satellite (GPS) technology, to ensure complete precision during seeding, fertilizer application and harvest.

You couldn't do it any other way, says the colony's manager, John Hofer. Being precise means saving money – something Hofer says is critical when you're operating on razor-thin margins.

IN THIS ENVIRONMENT, USING EVERY TECHNOLOGICAL TOOL AVAILABLE IS A NECESSITY, NOT A LUXURY, HE ADDS.

"We're as efficient as we can get," Hofer notes.

When Hofer talks about advances in farming, he talks about the need for maximizing flexibility and applying it to the business. That's where the CWB's Producer Payment Options (PPOs) come in, he says.

"I think they're a very good tool," Hofer says. "We like to use these programs to help our cash flow right after harvest. There are always bills to pay then and this helps."

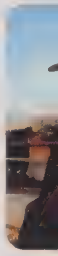
These days, managing the farm means closely checking commodity prices and taking advantage of the PPOs when it makes sense. The Basis Price Contract (BPC) has helped the colony manage cash flow at these critical times, while the Fixed Price Contract (FPC) has helped them cash in on market rallies.

It was farmers' desire for greater flexibility over individual pricing and payments that prompted the CWB to introduce the PPOs more than five years ago. The PPOs were designed to mimic the open market environment, while preserving the security and benefits of the single desk and price pooling. The PPOs continue to be a way for farmers to manage their own price risk without affecting pool accounts.

For Hofer, managing risk is what it's all about when you're trying to keep a farm viable and support 95 people.

Whether it's a family farm, a corporate farm or a colony farm, Hofer says there's one more element that every operation needs to be successful.

"It's good communication among everyone. Everybody has to know the target and what the goal is. That's really the key."



2002

2002

2004

2005

SHAPING YOUR OWN DESTINY...

The story of CWB's board of directors

Standing in a field on Ken Ritter's farm near Kindersley, Saskatchewan, you couldn't feel farther away from the complicated – and often cutthroat – world of international trade.

But Ritter – a farmer-elected director for the CWB – has been immersed in that world since he was elected to the CWB's board of directors in 1998. Between U.S. trade challenges and World Trade Organization (WTO) negotiations, rarely a day has passed – even during the busy times of seeding and harvesting – that doesn't see Ritter dealing with a trade issue that affects western Canadian farmers.

Ritter was one of 10 producers who formed the very first farmer-controlled board of directors at the CWB in 1998, following a change in *The Canadian Wheat Board Act* that put farmers in charge of the organization. For those directors, and the ones who followed, life has changed dramatically.

2005
- The Value-added Incentive Program (VIP) is created to promote the direct delivery of wheat, durum and malting barley to mills and malting plants in Western Canada.
- The CWB signs a Memorandum of Agreement with China for the sale of one million tonnes of milling wheat in 2005-06.

2006
- The CWB unveils its vision for the future of the organization – *Harvesting Opportunity*. It builds on the competitive advantage of the single desk and outlines a plan to transform the CWB into a non-profit, non-share capital corporation that operates completely independently of government
- Western Canadian wheat begins to flow into the U.S. following a ruling by the U.S. International Trade Commission (ITC) to reverse a previous injury ruling. Anti-dumping and countervailing duties previously applied to Canadian hard red spring wheat imports are lifted.
- The CWB unveils a flexible grain delivery system that will enable farmers in a select region to trade delivery periods among themselves. The Delivery Exchange Contract (DEC) pilot program launches in the 2006-07 crop year
- Western Canadian producers use 11,000 producer rail cars – the highest number in 15 years.

2005

"There's no doubt it impacts the development of the farm, because it takes your time away when you're travelling to Geneva for WTO talks and then you're off to Winnipeg for board business," he says. "But I think it's important to the board and the board is important to farmers."

Ritter says the 1998 governance changes were a milestone in the board's history. It marked the beginning of a new era – one where the board shed its status as a government-controlled agent of the Crown, and emerged as a farmer-controlled marketing powerhouse. The changes made the organization directly accountable to farmers, by acknowledging that the people who paid for the organization should also sit as a majority around its board table.

There was no shortage of commitment, but the learning curve was steep.

"We showed up in Winnipeg and had no code of conduct, no bylaws, nothing," Ritter says, remembering that first board meeting. "We had a clean slate. Most of us had never met. It was a huge period of growth for everybody."

Still, it wasn't long before Ritter faced his first U.S. trade challenge as the chair of the CWB's board of directors. Since 1998, the CWB's board of directors has seen eight trade challenges launched, fought and won. Over the past 16 years, there have been 14 American-led trade challenges in total; in each and every case, the CWB was ultimately exonerated as a free and fair trader.

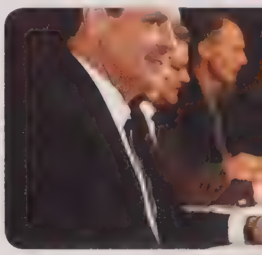
Ritter says making western Canadian farmers the main voice at the CWB's board table has been an important part of winning these challenges. Farmers are being heard at meetings with high-level trade officials, giving them the opportunity to clear up myths and personalize the message.

"I think it's a lot easier to deliver a message coming from Canadian grain producers if it's a farmer who delivers it," he says.

Farmers, by necessity, are cut from a hardy cloth, and Ritter says the same dogged determination that's kept him in the business of farming has also formed the backbone of his negotiating philosophy.

"I'VE BEEN IN A LOT OF SITUATIONS WHERE PEOPLE PUSH AND YOU HAVE TO PUSH BACK," HE SAYS. "THE WORLD OF TRADE IS NOT A NEAT, IDEALISTIC PLACE AND YOU DON'T GET VERY FAR BY BEING A PUSHOVER."

Perhaps it was that dogged attitude that helped clinch another major trade victory for western Canadian farmers. On Friday, February 24, 2006, U.S. Customs headquarters in Washington, D.C. notified American ports of entry that imports of Canadian hard red spring wheat were no longer subject to any duties. The notification cemented a major North American Free Trade Agreement (NAFTA) win for western Canadian farmers and meant that Canada Western Red Spring (CWRS) wheat could again freely enter the lucrative American market.

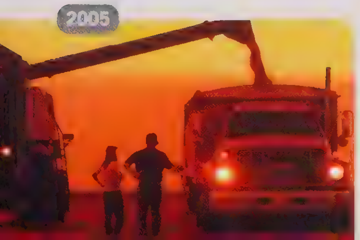


The victory marked the end of a two-and-half year chapter of trade battles with American protectionist interests. Although the CWB has been exonerated in each trade challenge, Ritter knows the harassment isn't likely to end. Recognizing that the CWB gives western Canadian farmers clout in the global marketplace, American wheat growers have lobbied their lawmakers to adopt a multi-faceted, long-term plan of attack.

Having western Canadian farmers like Ritter on the CWB's board ensures that the determination to fight won't fizzle on this side of the border. Too much is at stake.

"You fight for what is right. You don't give up just because the Americans don't like it," Ritter says. "The future of my farm, and my neighbour's farm, depends on it."

2005



2006

2006

CORPORATE GOVERNANCE

The following section reviews the CWB's performance highlights, farmer-controlled board of directors, committee structure and leadership team.

CWB PERFORMANCE HIGHLIGHTS

The CWB's performance is measured in terms of its achievements in four distinct areas: farmer, customer, mandate and corporate.

FARMER

Strategic Goal: To serve farmers' business needs while significantly increasing farmer support for and trust in the CWB.

Initiatives

- Implement a corporate-wide relationship management approach for farmers
- *Harvesting Opportunity*

Achievements

- Measured farmer support for the CWB through the annual farmer survey. Seventy-six per cent of western Canadian farmers say that they support the CWB. The CWB's 2005-06 target was 77 per cent.
- Enhanced Producer Payment Options (PPOs) by providing farmers with the ability to lock in a futures price a full year before harvest, introducing an "Act of God" option that would release farmers from contracts if substantial production loss occurred from unforeseen events beyond their control, and introducing a Basis Price Contract (BPC) program for malting barley.
- Developed a pilot delivery exchange program that allows farmers greater flexibility and control over the timing of their deliveries by allowing them to exchange their delivery periods with other farmers. The pilot program will be implemented in 2006-07.
- Measured the CWB's performance in offering products and services that meet farmers' business needs, through a specialized survey. Results were used to calculate the "Farmer Satisfaction Index" (FSI). The FSI result for 2005-06 was 63.4, slightly under the CWB's target of 65.
- Developed *Harvesting Opportunity*, a comprehensive vision for the future of the organization. The plan leverages the single desk to maintain a strong Canadian brand, generate market premiums and champion farmers' interests throughout the supply chain.

Development...
Implement...
Clarity...

CUSTOMER

Strategic Goal: To attract, develop and retain markets by delivering quality products and service to customers worldwide.

Initiatives

- Clarify farmers' views on value-added processing and develop strategies accordingly
- Investigate/develop a concept paper and business plan(s) for the CWB to market other Prairie crops
- Develop and implement a corporate branding strategy
- Continue development and implementation of long-term barley marketing strategies
- Enhance customer relationship management in marketing
- Develop a formalized long-term logistics and supply strategy
- Advance a variety development and distribution strategy
- Improve the wheat quality control system

Achievements

- Completed an extensive consultation with farmers regarding the CWB's role in value-added activities in Western Canada and initiated a strategy review to ensure that the CWB's policies encourage and foster value-added investment.
- Investigated the possibility of marketing canola at the request of the Manitoba Canola Growers Association and other groups. The CWB remains open to this possibility and will proceed, subject to farmers receiving approval from government, to market canola through the CWB.
- Announced a pilot program to market organic Prairie wheat in partnership with organic farmer groups. Participating farmers will be offered the opportunity to market through the CWB for a pooled return and organic premiums.

CUSTOMER (CONTINUED)

Strategic Goal: To attract, develop and retain markets by delivering quality products and service to customers worldwide.

Achievements

- Consulted with farmers and customers on the development of a corporate branding strategy aimed at increasing customer and consumer recognition of, and demand for, the high-quality wheat, durum and barley produced by farmers in Western Canada.
- Announced joint plans for a training and technical centre in Beijing in partnership with the China Cereals Oilseeds and Foodstuffs Corporation (COFCO). The technical centre will capitalize on growing demand for premium-quality, wheat-based foods in China.
- Initiated the payment of protein premiums for farmers who deliver two-row malting barley to participating elevators and maltsters.
    - Developed an innovative tool alongside industry partners to measure, and therefore better manage, fundamental quality attributes of malting barley – namely germination loss – during storage.
    - Initiated a technical mission to China in partnership with the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC) in order to pursue opportunities for western Canadian malt barley in this rapidly expanding market.
    - Launched a Basis Price Contract (BPC) for malting barley customers that is tied to the western barley futures contract on the Winnipeg Commodity Exchange. This program gives maltsters an added option for pricing with domestic brewers.

Partnerships...

Service...

Excellence

- Developed a database to store and track information about CWB customer preferences and demands, in order to increase efficiency and effectiveness in meeting sales demands and ultimately maximize returns for farmers.
- Measured the CWB's effectiveness in serving its customers by tracking technical and operational complaints related to the products and services of the CWB. Complaints totalled .07 per cent of sales; less than half of the CWB's annual target of .15 per cent.
- Incorporated the results of the 2004-05 customer satisfaction survey into the CWB's customer relationship management strategy. The survey results are used to formulate a customer satisfaction index, which for 2004-05 was 79.99. A survey was not conducted in the 2005-06 crop year.
- Launched a comprehensive, multi-year logistics and supply strategy that will transform the CWB's supply chain by increasing its reliability, improving its support technology and ultimately, improving farmers' returns through better management of costs.
- Investigated the possibility of direct variety ownership by the CWB or, alternatively, the formation of strategic alliances with partners in the seed industry to ensure farmers have access to promising, publicly available wheat, durum and barley varieties.
- Worked with industry to develop an interim grain-testing protocol for western Canadian wheat that incorporates falling number (FN).
- Met with Canadian Grain Commission (CGC) and industry partners to develop comprehensive new grading standards that would include FN.
- Continued funding for research on variety identification technology that would support a strong quality-control segregation system.
- Worked with the CGC to establish a wheat quality-assurance system as the industry moves towards a reduced reliance on kernel visual distinguishability (KVD).
- Participated in a grain industry program led by the Canada Grains Council to develop and pilot test an on-farm food safety assurance program. The program received Canadian Food Inspection Agency (CFIA) approval and the results of the pilot-test will be used to further develop the on-farm food safety assurance program. Also developed a plan for grain safety emergencies in conjunction with the CGC.

MANDATE

Strategic Goal: To strengthen the long-term CWB mandate at home and its support/acceptability in international trade.

Initiatives

- Strengthen the CWB's trade position in international agreements

Achievements

- Employed a comprehensive advocacy strategy that included meetings with World Trade Organization (WTO) member countries to build support for the CWB's objectives in reaching a comprehensive agreement on agriculture at the WTO.
- Established alliances with a consortium of Canadian agri-food exporters who lobbied the federal government to pursue bilateral trade agreements in key markets.

CORPORATE

Strategic Goal: To achieve excellence in the provision of human resources, financial operations, information technology and other corporate programs and services that support or advance the CWB.

Initiatives

- Develop best practice disciplines that enable the CWB to deliver against the long-term plan
- Implement a human resources strategy

Achievements

- Reviewed governance guidelines established for corporations in Bill 198 of the Ontario Securities Commission in order to assess the cost-effectiveness and full implications of partial or full adoption of these guidelines.
- Measured the satisfaction of CWB employees by tracking voluntary turnover rates. The percentage of staff that left the CWB voluntarily in 2005-06 was 5.8 per cent, slightly above the five-per-cent target, but below industry average.
- Formulated a comprehensive human resources strategy based partially on the results of the 2004-05 employee survey. The survey results are also used to create an employee satisfaction index, which was 3 for 2004-05 – just below the target range of 3.75 – 4.2. The next survey is scheduled for the 2006-07 crop year.
- Implemented a new salary structure and designed and approved a bonus program for staff. Also implemented a cost-share approach to current benefits and enhanced programs aimed at stimulating employee learning and career development.

FARMER-CONTROLLED BOARD OF DIRECTORS

Farmer-directors are elected by permit holders in 10 electoral districts across Western Canada.

The CWB operates as a shared-governance corporation under *The Canadian Wheat Board Act*. The board consists of 15 members, including 10 prominent farmers elected by their peers, four respected leaders from the business community appointed by the federal government, and the chief executive officer (CEO). In 1998, this unique board structure was created to better focus the CWB on farmers' needs, by placing control of the corporation directly into farmers' hands.

Farmer-directors are elected by producers in 10 electoral districts across Western Canada. To ensure continuity on the board, these directors have four-year terms and elections are held every two years, alternating between odd- and even-numbered districts.

Prior to the government's appointment of directors, the CWB advises the Minister for the Canadian Wheat Board about its future business requirements, to ensure appropriate appointments are made. Appointed directors hold three-year terms, and the CEO is appointed based on a recommendation from the board of directors.

1. Art Macklin

Art, along with his wife and son, operates a 1,600-acre grain and cattle farm northeast of Grande Prairie, Alberta. Art is active in both church and community, is a past president of the National Farmers Union and served as chair of the former CWB Advisory Committee. He is the chair of the Canadian International Grains Institute.

2. James Chatenay

Jim operates a family farm near Penhold, Alberta. He is a graduate of Olds Agricultural College and served six years as director of the Alberta Charolais Association.

3. Bill Toews

Bill and his wife, Barbara, operate Harambee Farms, a grain and special crops farm at Kane, Manitoba. Bill has a degree in agriculture and a post-graduate degree in soil science. He has served as a director for Keystone Agricultural Producers, the Western Grains Research Foundation and the Manitoba Farm Products Marketing Council. Bill worked in Kenya and Pakistan with the Canadian International Development Agency. He is currently serving on the Manitoba Agri-Food Research and Development Council, as well as on a local credit union board.

4. Ken Ritter Chair (District 4)

Ken has been the chair of the CWB's board of directors since its inception and has served on both the National Transportation Agency and the Saskatchewan Surface Rights Arbitration Board. He operates a family farm near Kindersley, Saskatchewan. In addition to farming, he has practised law and taught school in both Canada and Australia.

5. William Nicholson (District 9)

Bill and his family operate a 4,800-acre grain farm near Shoal Lake, Manitoba. Bill has a degree in agricultural engineering and has worked in the farm machinery industry. In addition to serving on the former CWB Advisory Committee, Bill has been a Manitoba Pool delegate and represented farmers on the Prairie Agricultural Machinery Institute Council; he is currently president of his local credit union board. He has served as chair of the board's Strategic Issues Committee since 2003.

6. Rod Flaman (District 8)

Rod farms with his wife Jeanne just south of the Qu'Appelle Valley, near Edenwold, Saskatchewan. They produce a variety of field and horticultural crops, including certified organic grain. Rod was educated at the University of Saskatchewan, where he received a bachelor of science in mechanical engineering. He worked in the oil, power generation and manufacturing industries for 10 years before returning to the family farm. Rod has served as a director of the Saskatchewan Fruit Growers Association, the Regina Farmers Market and Terminal 22, a farmer-owned grain terminal at Balcarres, Saskatchewan.

7. William Cheuk (Appointed)

William is president of Vancouver-based Origin Organic Farms Inc. and Vision Envirotech International Ltd. He is also commissioner of the BC Vegetable Marketing Commission and president of the Chinese Federation of Commerce of Canada. He has led numerous trade missions to Asia and has experience with international trade dispute resolution. William has played a central role in the Environmental Farm Planning Program for sustainable development in agriculture. He has a bachelor of business administration degree, majoring in accounting, from Simon Fraser University, as well as bachelor and doctorate degrees in chemical and biological engineering from the University of British Columbia.

8. Allen Oberg (District 5)

Allen and his brother, John, run a grain and cattle operation near Forestburg, Alberta. Allen has served on the boards of numerous organizations throughout his career, including Alberta Wheat Pool, Agricore and the Canadian Cooperative Association.

9. Ian McCreary (District 6)

Ian was raised on the mixed farm near Bladworth, Saskatchewan that he operates today. He holds a master's degree in agricultural economics and has previously worked at the CWB as a marketing manager and policy analyst. Ian has served as chair of the Farmer Relations Committee for the past three years and previously chaired the Strategic Issues Committee. His international experience includes managing a pilot project on food aid and food markets for the Canadian Foodgrains Bank, which included nine projects through Asia, Africa and Latin America.

10. Dwayne Anderson (District 7)

Dwayne and his wife, Sheila, operate a 2,900-acre farm in the Fosston-Rose Valley area of Saskatchewan. He served 10 years as president and chief executive officer of North East Terminal Ltd., a farmer-owned inland grain terminal and crop input business. Dwayne was founding chair of the Inland Terminal Association of Canada and is currently serving as interim chair of the Saskatchewan Oat Development Commission. Dwayne has received accreditation as a Chartered Director by the Directors College.

11. Ross Keith (Appointed)[1]

Ross is president of the Nicor Group, a Regina-based real estate development company, and is a former partner in the Regina law firm of MacLean-Keith. He has degrees from the University of Saskatchewan in arts, commerce and law.

12. Adrian Measner (Appointed)[7]

President and Chief Executive Officer

Raised on a farm near Holdfast, Saskatchewan, Adrian was educated at the University of Saskatchewan. He has more than 30 years of experience in the grain industry and has held a variety of positions at the CWB. He was also previously involved in the operation of a small grain farm north of Winnipeg, Manitoba.

13. Larry Hill (District 3)

Larry farms 4,300 acres near Swift Current, Saskatchewan. He is a graduate of both agricultural engineering and farm business management at the University of Saskatchewan and has worked for Saskatchewan Agriculture. Since 2002, he has chaired the Audit, Finance and Risk Committee. He also serves as chair of the Ad Hoc Trade Committee.

14. Bonnie DuPont (Appointed)

A group vice-president at Calgary's Enbridge Inc., Bonnie has expertise in energy transportation and grain handling, and has held senior positions with Alberta Wheat Pool and Saskatchewan Wheat Pool. Prior to entering the grain industry, Bonnie was employed by SaskPower. She continues to provide executive leadership at Enbridge in the areas of corporate governance and human resources management, as well as information technology and public and government affairs. She holds a bachelor's degree from the University of Regina, with majors in program administration and evaluation, and psychology; she also holds a master's degree in human resources management from the University of Calgary. She is a member of the Institute of Corporate Directors and has completed its Director Education Program. Bonnie served as chair of the Governance and Management Resources Committee since 2002 and owns a farm near Imperial, Saskatchewan.

15. Ken Motiuk (Appointed)[3]

Ken has extensive experience in agri-business and owns and operates grain and livestock operations near Mundare, Alberta. He holds a bachelor of science in agricultural economics from the University of Alberta. Ken currently serves as a director of the Alberta Credit Union Deposit Guarantee Corporation, a member of the Fiscal and Regulatory Committee of the Alberta Economic Development Authority and a member of the Institute of Corporate Directors.

Bruce Johnson (Appointed)[4]

Bruce has worked in the grain industry for more than 25 years. He has held senior positions in both privately held and cooperative grain companies and has served on several boards. Bruce has provided consulting services to a broad range of clients in transportation, food and agriculture and government. He holds a bachelor of arts degree from the University of Manitoba and currently resides in Regina.

Lynne Pearson (Appointed)

Lynne Pearson is Dean Emerita of the College of Commerce at the University of Saskatchewan and past chair of the Canadian Standards Association. She has held senior positions with several public and private sector organizations and has served on numerous boards. Lynne holds bachelor's and master's degrees in arts and a bachelor's degree in journalism.

Glen Findlay (Appointed)'

Glen and his wife Kay, along with their family, operate a 5,000-acre, 300-head beef farm at Shoal Lake, Manitoba. Glen holds a bachelor's and a master's degree in animal nutrition from the University of Manitoba and a Ph.D. in nutritional biochemistry from the University of Illinois. He has served as a post-doctoral fellow at the National Research Council in Ottawa and as a professor in the Faculty of Agriculture at the University of Manitoba. He was a member of the Manitoba Legislative Assembly for 13 years, where he served as Minister of Agriculture, Minister of Highways and Transportation and Minister responsible for Telecommunications. While a minister, he was involved in numerous international trade missions. He also served as a member of *the Canadian Transportation Act* Review Panel and has been an Agricore United delegate. He has been active in several farm organizations and community sports.

Notes:

1 Ross Keith served on the board from December 31, 1998 to October 26, 2006.

2 Bonnie DuPont served on the board from July 31, 2001 to October 25, 2006.

3 Ken Motiuk was appointed to the board on September 15, 2006.

4 Bruce Johnson was appointed to the board on October 30, 2006. He is not pictured.

5 Lynne Pearson served on the board from June 18, 2003 to June 18, 2006. She is not pictured.

6 Glen Findlay was appointed to the board on November 27, 2006. He is not pictured.

7. Adrian Measner served on the board from December 31, 2002 to December 19, 2006. Greg Arason was appointed interim CEO on December 19, 2006.

MANDATE

The board of directors is responsible for establishing overall strategic direction and reviewing and approving strategic plans, budgets, financial statements, the annual business plan and the borrowing plan. The board also ensures management has appropriate systems in place to manage risk, maintain the integrity of financial controls and oversee information services.

This year, the board continued to provide strong strategic leadership, which culminated in the development of a comprehensive new vision for the CWB. This vision, called *Harvesting Opportunity*, will provide the necessary tools for the CWB to be a world-class competitor in marketing, handling and processing Canadian grain, while ensuring that farmers themselves stay in full control. *Harvesting Opportunity* is the result of more than a year of research and deliberation by the CWB board, with input from numerous external experts.

While engaged in the development of *Harvesting Opportunity*, the board continued to provide strategic direction over the business of the CWB. In addition to the annual business plan, the marketing, communications and government relations plans are board-approved vehicles that enable the directors to evaluate management's progress against set business objectives.

Highlights of the year include:

- Development of *Harvesting Opportunity*, a comprehensive strategy for the future.
- Approval of new corporate vision and mission statements.
- Further advocacy on trade to ensure CWB interests were fully represented at World Trade Organization (WTO) negotiations.
- Continued focus on accountability to farmers through district meetings and director presence at key industry events.
- Refinement of high-level corporate performance measures, to assist the board in its oversight role.
- Additional investment in research and education through a new technical centre in China, value-added processing research at the University of Alberta and Fusarium Head Blight research at the Brandon Research Centre.
- Development of a response to the CWB Election Review Panel recommendations.
- Approval of a variable-pay compensation system linked to the achievement of business goals.

Leading by example...

The board has taken a proactive approach to its corporate governance philosophy and framework, assuming best practice guidelines for its governance standards. With the exception of the president and CEO, all of the directors on the board are independent of management. The board has the following controls and policies in place to demonstrate the CWB's commitment to good governance.

1. An approved code of conduct and set of conflict-of-interest guidelines.
2. Annual conflict-of-interest declarations for all directors.
3. A list of significant policies developed and approved by the board that guide corporate conduct.
4. Candidate conflict-of-interest disclosure statements, which are required for prospective elected directors.
5. Regulations that require director candidates to undertake in writing that, if elected as directors, they will terminate any positions they hold as directors, employees or officers of a grain company or as an employee or officer of, or as a professional consultant to, the CWB, a grain company, the Government of Canada or a province.
6. Up-to-date terms of reference for the board of directors, which establish the mandate and responsibilities of the board.
7. Up-to-date terms of reference that describe the duties of the chair of the board, the CEO, each committee and individual directors.
8. A comprehensive orientation program, which is provided for each new director.
9. Continuing professional development opportunities for directors, which are provided at the Directors College and through ongoing board education sessions and financial literacy modules.
10. A process to determine the competencies and skills the board should have and identify any gaps therein.
11. Regular evaluations of the board's effectiveness, as well as the effectiveness and contribution of each board committee and each individual director. The use of peer assessments was introduced in 2005-06.
12. A succession plan that is monitored by the board to ensure that the directors are satisfied that a pool of talent is available and being developed to fill key senior management positions.
13. An in-camera session that is held at each board meeting without management present.
14. An in-camera session that is held at each audit committee meeting with the head of Corporate Audit Services.
15. A policy stating that the CEO is not eligible to be chair of the board.
16. A policy that allows directors to engage the services of an outside advisor, with the authorization of the chair of the board.
17. Internal controls that have been assessed and continue to be monitored to ensure integrity and accountability. As part of strategic planning, the board annually reviews and supplements an integrated risk-management summary that identifies and measures external risks and opportunities.

Responsibility...

Strategy...

COMMITTEE STRUCTURE

To assist in fulfilling its governance role and responsibilities, the board of directors has established four standing committees. In 2005-06, there was also an Ad Hoc Trade Committee, reflecting the significance of international trade issues during this time. The board chair is an ex-officio, non-voting member of all board committees. The president and CEO is an ex-officio, non-voting member of all board committees except Audit, Finance and Risk.

Audit, Finance and Risk Committee

Mandate – Primary responsibilities include the review of financial reporting, accounting systems, risk management and internal controls. It facilitates the conduct of an annual audit, assesses performance measures, reviews annual financial statements and accounting practices and reviews financial/business risk policies, plans and proposals.

Members – Larry Hill (chair), Dwayne Anderson, William Cheuk, Bonnie DuPont[2], Bruce Johnson[3], Ian McCreary and Ken Motiuk[1].

Governance and Management Resources Committee

Mandate – Focuses on governance to enhance board and organizational effectiveness. It also assists the board in fulfilling its obligations related to human resources and compensation matters.

Members – Bonnie DuPont[2] (chair), Dwayne Anderson, James Chatenay, William Cheuk, Rod Flaman, Bruce Johnson[3], Ken Motiuk[1] and Bill Nicholson.

Strategic Issues Committee

Mandate – Ensures that strategic and policy issues are identified and that priorities, time frames and processes to address these issues are recommended to the board. It coordinates the board's input with the CWB's strategic planning process.

Members – Bill Nicholson (chair), James Chatenay, Rod Flaman, Ross Keith[4], Art Macklin, Allen Oberg and Bill Toews.

Farmer Relations Committee

Mandate – Reviews and recommends to the board strategic plans for farmer relations, communications and government relations.

Members – Ian McCreary (chair), Larry Hill, Ross Keith[4], Art Macklin, Allen Oberg and Bill Toews.

Ad Hoc Trade Committee

Mandate – Reviews and recommends strategies on trade-related issues that could affect the CWB's ability to fulfil its mandate.

Members – Larry Hill (chair), Rod Flaman, Ross Keith[4], Art Macklin, Ian McCreary and Bill Nicholson.

1 Ken Motiuk was appointed to the committees on September 28, 2006

2 Bonnie Dupont left the board October 25, 2006.

3 Bruce Johnson was appointed to the committees on November 23, 2006.

4 Ross Keith left the board October 26, 2006.

Relationships...

Management...

Performance...

COMPENSATION TABLE AND MEETINGS ATTENDED, 2005-06 CROP YEAR

Board of directors

		Remuneration			Attendance		
Director	District	Retainer	Per diems	Total	Board meetings	Committee meetings	Industry/ miscellaneous meetings
Macklin, Arthur	1	$ 20,000	$ 44,950	$ 64,950	10/10	20/20	50
Chatenay, James	2	20,000	24,250	44,250	10/10	16/16	14
Hill, Larry	3	28,000	49,350	77,350	10/10	21/23	43
Ritter, Ken	4	60,000	45,350	105,350	10/10	23/23	40
Oberg, Allen	5	20,000	30,750	50,750	9/10	19/19	22
McCreary, Ian	6	24,000	28,500	52,500	10/10	22/23	39
Anderson, Dwayne	7	20,000	28,500	48,500	10/10	14/14	20
Flaman, Rod	8	20,000	41,250	61,250	9/10	17/19	39
Nicholson, William	9	24,000	29,950	53,950	10/10	20/20	37
Toews, William	10	20,000	34,500	54,500	10/10	16/16	49
Cheuk, William	A	20,000	12,500	32,500	10/10	14/17	3
DuPont, Bonnie	A	24,000	10,250	34,250	10/10	17/19	5
Keith, Ross	A	20,000	23,000	43,000	10/10	18/22	10
Measner, Adrian	A	N/A	N/A	N/A	9/10	N/A	N/A
Pearson, Lynne	A	18,333	10,000	28,333	9/9	17/19	3
Total:		**$ 338,333**	**$ 413,100**	**$ 751,433**			

Notes:

A = Appointed

Directors are paid an annual retainer and per diem allowances. The board chair receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $4,000 per committee chaired. A per diem of $500 per full regular meeting day is paid to each member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for directors and $100,000 for the board chair. During 2005-06, the board approved compensation in excess of the limit for Ken Ritter, Larry Hill and Art Macklin for additional duties undertaken in relation to trade, mandate and other issues. (Rod Flaman also received compensation in excess of the limit due to the timing of payments.) Directors do not participate in any corporate pension plan or any corporate benefit plan, with the exception of travel accident and travel medical insurance.

DIRECTOR REPRESENTATION ON EXTERNAL BOARDS AND COMMITTEES 2005-06 CROP YEAR

The board of directors is invited to name representatives to serve on external boards and committees related to the Canadian grain industry. The following is a list of directors assigned during the 2005-06 crop year.

External board or committee	Position	Director
Agricuture and Agri-Food Canada Cereal Grains Value Chain Roundtable	CWB board representative	Rod Flaman
Canada Grains Council	Board member	Adrian Measner
Canada Grains Council On-Farm Food Safety Committee	CWB board representative	Allen Oberg
Canadian Federation of Agriculture	CWB board representative	Larry Hill
Canadian International Grains Institute	Board member Board member	Arthur Macklin Adrian Measner
Malt Barley Industry Group	CWB board representative	Dwayne Anderson
National Forum on Seeds	CWB board representative	Arthur Macklin
Western Grain Standards Committee	Member, wheat subcommittee Member, barley subcommittee	Rod Flaman William Nicholson
Western Grains Research Foundation	Member, barley advisory committee Member, wheat advisory committee Board member	James Chatenay William Toews Allen Oberg

CWB LEADERSHIP TEAM

Early in the 2005-06 crop year, the president and CEO announced a restructuring of senior management. The result was the reduction of three vice-president-level positions and the establishment of a leadership team. Prior to the restructuring, senior management included an executive team and vice-presidents, or equivalent positions, and numbered 16. The reorganization increased the number of direct reports to the president from five to eight, and ensured that all critical strategic functions reported at the most senior level in the organization.

The leadership team is focused on driving the achievement of the CWB's strategic direction. In conjunction with key management, the leadership team supports the board of directors in establishing the CWB's vision, mission and strategic initiatives. The leadership team and management provide leadership to, and are accountable for, the successful implementation of the annual and long-term plans of the organization.

In March 2006, one member of the leadership team resigned. This has resulted in the redefinition of the vacant position and a decision to reduce the leadership team from eight to seven.

The salaries and benefits provided below are for the eight positions for 2005-06. The 2004-05 column reflects compensation for 16 positions.

Leadership team compensation

	2005-06 Actual	2004-05 Actual
Salaries	$ 1,254,490	$ 2,608,635
Benefits	470,137	1,015,783
Total	**$ 1,724,627**	$ 3,624,418

The leadership team is compensated in accordance with policies approved by the board of directors. In keeping with the *CWB Information Policy* and in a desire to be open with and accountable to farmers, the following table sets forth the annual compensation earned by the president and chief executive officer, as well as the four other highest-paid senior officers for the year ended July 31, 2006.

Summary compensation table, 2005-06

	Annual compensation	
	Salary[1]	All other compensation
Adrian Measner – President and Chief Executive Officer	$ 286,166	
Ward Weisensel – Chief Operating Officer	226,663	
Brita Chell – Chief Financial Officer	179,422	–
Graham Paul – Chief Information Officer	166,068	–
Deanna Allen – Vice-President, Farmer Relations and Public Affairs	157,949	–

Notes:

1 Reflects salary earned as of July 31, 2006.

2 The CWB has no additional compensation plans beyond base salary. The value of perquisites for each senior officer did not exceed the lesser of $50,000 or 10 per cent of total annual salary.

Leadership Team

Adrian Measner
President and CEO[1]

Ward Weisensel
Chief Operating Officer

Brita Chell
Chief Financial Officer

Deanna Allen
Vice-President, Farmer Relations and Public Affairs

Laurel Repski
Vice-President, Human Resources

Graham Paul
Chief Information Officer

Margaret Redmond
Chief Strategic Officer and Head of Corporate Services

Vice-President, Planning and Business Development

Notes:

1. Adrian Measner served on the board from December 31, 2002 to December 19, 2006
Greg Arason was appointed interim CEO on December 19, 2006

2. Margaret Redmond left the CWB in March 2006

3. The vice-president, planning and business development is currently vacant; the recruitment process is under way

Pictured from left to right
Graham Paul
Adrian Measner
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ANAGEMENT DISCUSSION AND ANALYSIS

RESPONSIBILITY

The following discussion and analysis (MD&A) is the responsibility of management as of November 23, 2006. The board of directors carries out its responsibility for the review of this disclosure, principally through its Audit, Finance and Risk (AFR) Committee. The AFR Committee reviews the disclosure and recommends its approval by the board of directors.

Contents

OUR BUSINESS

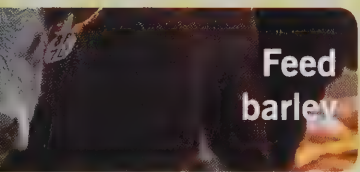
Controlled by western Canadian farmers, we are the largest single-source wheat and barley marketer in the world. As one of Canada's biggest exporters, we sell grain to more than 70 countries and return all sales revenue, less the costs of marketing, to Prairie farmers.

Products

Western Canadian wheat is marketed to customers in more than 70 countries worldwide and enjoys an international reputation for consistency, reliability of supply and quality. Flour made from wheat is the main ingredient in many staple foods consumed around the world, including pan breads, flat breads, steam breads, some noodles, and other products such as crackers.

We market quality durum wheat grown by western Canadian farmers to more than 40 countries around the world. When durum is milled, semolina is produced. Semolina is primarily used in pasta and couscous, which is a staple dish in North Africa.

About 65 per cent of Western Canada's barley acres are seeded to malting varieties. About 25 to 30 per cent meets the strict quality-control standards set for malting, or designated barley selection. The majority of the quality barley is used to make malt for beer, both domestically and internationally. Much smaller quantities are used for whiskey distilling, confectionary and in baked products.



Feed barley from Western Canada is mainly consumed by the domestic hog and cattle industry or, with added enzymes, by the poultry industry. It is the central ingredient used by western Canadian feedlots to produce quality Canadian beef. About 95 per cent of feed barley is consumed domestically. Barley grown for livestock feed or industrial uses (like ethanol) does not have to be sold through the CWB. Feed barley may be sown specifically for animal consumption or consist of unselected malting varieties.

OPERATIONAL ENVIRONMENT

The vast majority of grain grown in Canada comes from farmers living and working on the Prairies. We market approximately 18 to 24 million tonnes of western Canadian wheat, durum and barley on behalf of Prairie farmers each year. It is sold to a multitude of customers in more than 70 countries worldwide. Annual revenue from these sales is between $3 billion to $5 billion, with all sales revenue, less marketing costs, returned directly to farmers.

Global competition

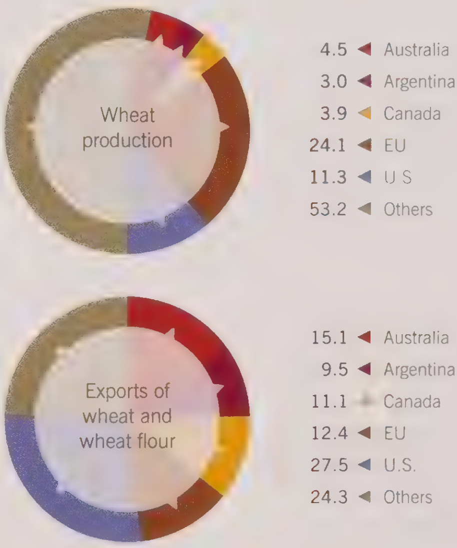
The global market for wheat, durum and barley is highly competitive. For more than 70 years, we have sustained and built our market presence through branding, reputation and customer service. As a result, we have become the largest wheat and barley marketer in the world. However, all competitors are seeking ways to sustain and expand their share of the global market, particularly in premium markets.

Each year, we market between 12 and 14 million tonnes of milling wheat to customers in Canada and around the world. Our major international customers vary from year to year and include China, Japan, Sri Lanka and Indonesia. The U.S. has also traditionally been a key market for Canadian milling wheat.

Together, Canada, Argentina, Australia, the European Union (EU) and the U.S. account for approximately 75 per cent of the total wheat traded worldwide, while producing less than 50 per cent of the world supply. The disparity intensifies an already competitive marketplace and has the potential to exert pressure on Canada's market share – especially as traditionally "minor" exporting countries (such as Russia, Kazakhstan and Ukraine) increase their presence as wheat exporters (see Figure 1). Additional competitors with cost-of-production advantages, such as lower land and input prices, also continue to emerge and place downward pressure on wheat export prices.

Market shares of production and exports by principal wheat exporting regions – FIGURE 1

(% of world totals over 2001-06 time period)



EACH YEAR, WE MARKET BETWEEN 12 AND 14 MILLION TONNES OF MILLING WHEAT TO CUSTOMERS IN CANADA AND AROUND THE WORLD.

A similar condition exists in the durum market. The EU, Canada and the U.S. control approximately 76 per cent of the export market. Meanwhile, Canada holds a 50-per-cent share of the world durum market. However, these countries together produce less than 45 per cent of the world's durum supply, with Canada producing only 12 per cent. This imbalance intensifies the already competitive marketplace.

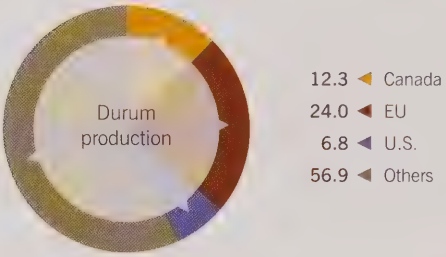
Global buyers value Canadian durum for its consistency, quality and ease of supply, which is ensured by our superior marketing and grain-handling systems. Italian pasta makers are among the top buyers of Canadian durum, while other valuable customers include North Africa (Algeria, Morocco, Tunisia), South America (Venezuela, Chile, Peru) and the United States. Canada's own domestic pasta industry purchases roughly 300 000 tonnes of durum a year and is usually among the top five buyers.

In the feed and malting barley export market, the main suppliers are Australia, Canada, the EU and the U.S., who together control approximately 57 per cent of exports. Australia dominates the barley market, capturing about 26 per cent of exports. The amount of barley produced in each country is roughly equal to export market share (see Figure 3).

Two-row malting varieties from Western Canada are used in the domestic brewing industry and are also sold to major malt and malting barley customers in the U.S., Asia, Central and South America and South Africa. Six-row malting varieties from Western Canada are predominantly marketed to the malting and brewing industry in Canada and the U.S., with smaller quantities sold to Mexico.

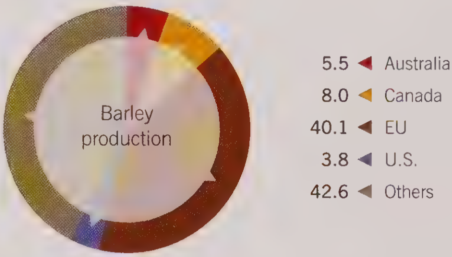
Market shares of production and exports by principal durum exporting regions – FIGURE 2

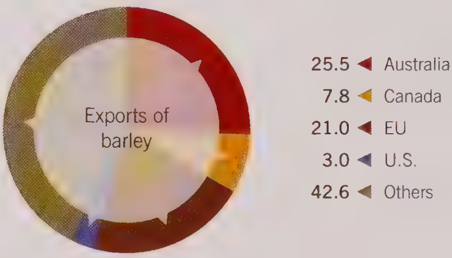
(% of world totals over 2001-06 time period)



Market shares of production and exports by principal barley exporting regions – FIGURE 3

(% of world totals over 2001-06 time period)





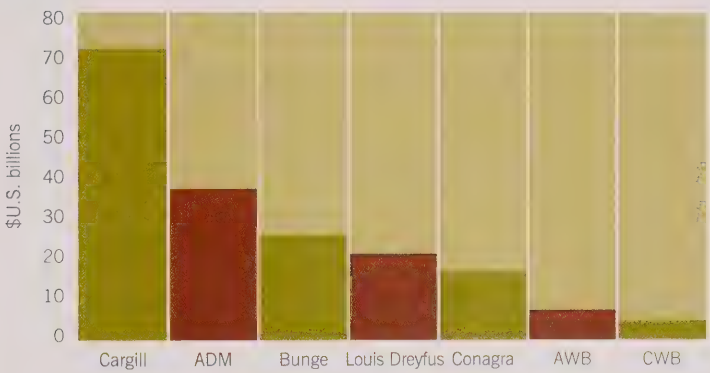
Corporate concentration

A handful of vertically-and horizontally-integrated multinationals effectively control the global grain trade. Four companies – Cargill, Louis Dreyfus, Archer Daniels Midland (ADM) and Bunge – control 73 per cent of the global market for grain. Several Canadian-based companies are closely linked to these companies and control many parts of the Canadian supply chain, including grain handling, feed and fertilizer production, feedlots, transportation, food processing and financial trading.

Subsidies

The international grain marketplace is distorted by the effects of subsidies paid to grain producers in other countries, particularly in the U.S. and the European Union. The extent of these domestic support programs insulates U.S. and EU producers from true global supply and demand factors, resulting in distorted production and prices. In contrast, western Canadian farmers receive only a fraction of the subsidies that farmers in competitor countries are paid.

Total revenue of CWB's global competitors (2005)



* Most recent data available: most for year-end within 2004. Sourced from public Web sites and annual reports. Represents gross revenue for Cargill, CWB and AWB; net revenue for ADM and Bunge. Louis Dreyfus figure represents an annual average.

A HANDFUL OF VERTICALLY- AND HORIZONTALLY-INTEGRATED MULTINATIONALS EFFECTIVELY CONTROL THE GLOBAL GRAIN TRADE.

Wheat support: a level playing field? – FIVE-YEAR AVERAGE, 2000-04

Source: OECD PSE database

BUSINESS STRUCTURE

We are a shared-governance corporation created by *The Canadian Wheat Board Act* (*the Act*). We are not a Crown corporation, nor do we have any shareholders. The board of directors consists of 15 members – 10 of whom are farmers elected by their peers; four are leaders from the business community and are appointed by the Government of Canada; the chief executive officer is recommended by the board of directors and appointed by the Government. Under the board of directors' terms of reference, all directors are required to act in the best interest of the corporation, in order to maximize returns to western Canadian producers.

Three pillars underpin the operations and structure of the CWB – the single desk, price pooling and government guarantees.

The single desk

Through legislation enacted in 1935, we are the lone marketing agent for wheat and barley grown in Western Canada. Our mandate covers both the export and human consumption markets. Wheat and barley grown for livestock feed or industrial uses (like ethanol) need not be sold through the CWB.

The single desk adds value for western Canadian farmers by enabling them to capitalize on Canada's reputation for grain quality, consistency, food safety, customer service and reliability. Western Canada's 75,000 wheat and barley farmers market as one through the CWB. Working together, instead of competing against one another for each sale, enables farmers to command a higher return for their grain and have clout on issues that impact their bottom lines.

Under the single-desk model, farmers are empowered to compete in a global grain trade that is largely controlled by a handful of multinational corporations, and in a domestic grain-handling and transportation system dominated by two large grain companies and two national railways.

Price pooling

Price pooling means that all sales revenue earned during the crop year (August 1 to July 31) is deposited into one of the pool accounts: wheat, durum wheat, designated barley, feed barley A or feed barley B. The pooling system returns all revenues, less marketing costs, to farmers through these pool accounts. This ensures that all farmers delivering the same grade of wheat or barley receive the same returns at the end of the crop year, regardless of when their grain is sold during the crop year. It acts as a risk-management tool that allows farmers to share market risks by giving each farmer his or her fair share of the highs and lows of the marketplace.

Producer Direct Sale (PDS)

Farmers have the ability to sell directly to buyers through the PDS program in order to take advantage of niche- and premium-market opportunities. This program ensures that all western Canadian farmers retain the benefits of single-desk selling and earn their share of the single-desk premiums, while enjoying additional marketing opportunities.

Government guarantees

The CWB currently has financial guarantees on initial payments, borrowings and credit sales through the Government of Canada. Guaranteed initial payments provide a minimum price floor, giving farmers protection from the extreme volatility of grain markets. Guaranteed borrowings are used to finance payments to farmers before sales revenue is received, helping our farmers meet their operating costs. Credit guarantees allow us to compete in a marketplace with multinational companies who have access to similar or even more generous credit programs offered by their respective governments.

Beyond price pooling: Producer Payment Options

When farmers requested the opportunity to exercise greater individual control over pricing their wheat, durum and barley, as well as how and when they get paid, we introduced Producer Payment Options (PPOs). These options provide farmers with the ability to manage their own pricing risks without affecting pool accounts. PPOs mimic the open-market environment, while keeping the security and benefits of the single desk intact. Program costs are entirely covered by the farmers who use it.

The main payment options now available to farmers through the CWB (in addition to the traditional pooling system) are as follows:

Fixed Price Contract (FPC): Through the FPC, farmers are able to lock in a fixed and final price for their grain, based on a market value.

Basis Price Contract (BPC): The BPC enables farmers to lock in the pooled basis and futures at different times during the program.

Daily Price Contract (DPC): The DPC is also a fixed price contract, which allows farmers to lock in a price for their wheat that reflects U.S. market spot prices on the day they choose to sell their grain.

Early Payment Option (EPO): An EPO contract enables farmers to establish a floor price based on the Pool Return Outlook (PRO). The farmer can lock in at 80, 90 or 100 per cent of the PRO, each with a corresponding discount. This option also allows farmers to participate in price gains if pool returns exceed the EPO price.

Pre-delivery Top-up (PDT)

Western Canadian farmers are able to access cash advances from the Government of Canada through a variety of programs we administer on its behalf. The PDT program provides farmers with the opportunity for additional cash flow early in the crop year by providing an additional pre-delivery payment.

People

We have a diverse and highly skilled workforce that is crucial to our success. The organization's headquarters are in Winnipeg and satellite offices are located in Vancouver; Ottawa; Beijing, China; and Tokyo, Japan. We also operate regional offices in Saskatoon, Saskatchewan and Airdrie, Alberta, just north of Calgary.

The majority of the organization's 460 employees are based in Winnipeg. Sixteen Farm Business Representatives (FBRs) cover large districts across Western Canada and are responsible for serving the business needs of farmers and maintaining contact with the individual grain-handling facilities within their districts. They meet with farmers both individually and in groups, to provide regular updates on the CWB's programs. They also work with farmers on issues concerning delivery, contracts and payments.

PRODUCER PAYMENT OPTIONS (PPOs) PROVIDE FARMERS WITH THE ABILITY TO MANAGE THEIR OWN PRICING RISKS WITHOUT AFFECTING POOL ACCOUNTS.

OUR VISION AND STRATEGIES

The CWB is a marketing agency that belongs to Prairie farmers. It enables them to have a significant presence in the international marketplace. It does not insulate them from the realities of this marketplace, but it gives them the means to bring innovative solutions to the challenges they face.

Our strategy is to grow our competitive advantage in order to add value for farmers. We do this by leveraging the single desk, branding western Canadian wheat and barley, providing service excellence for both farmers and end-use customers and developing new markets. External studies using CWB sales data have confirmed that this strategy provides farmers with higher returns than they would receive in an open market. In addition, all marketing revenues, less associated costs, are returned to farmers. This allows us to have a single focus: earn as much as possible for farmers through the marketing of their wheat, durum and barley.

Key performance drivers

We have established a set of corporate performance measures against which the organization measures its ongoing progress towards its goals. The existing measures were established through an extensive examination of our key business drivers. Through this exercise, the organization identified six areas of value creation:

Active farmer support – As the major stakeholders of the organization, farmer support is critical to us. To be successful, we must ensure we understand the needs of farmers and meet them better than any other organization.

Customer satisfaction – Understanding and serving customer needs is vital and ensures we will continue to be an effective grain marketer and generate maximum value for western Canadian farmers.

Maximizing returns – The organization must continually focus on earning the highest possible returns for farmers through the single desk.

Operational effectiveness – Providing high service levels to farmers and customers, while aggressively managing costs, is important to ensuring we serve farmers' interests in the best possible manner.

Market development – To ensure the continuation and development of ongoing high-value markets for western Canadian farmers' grain, we must actively develop new products and services, bring existing products and services to new markets and grow sales of current products to existing customers.

Motivated/skilled workforce – To achieve our goals, we must ensure the organization maintains a well-informed, highly skilled and motivated workforce that is focused on delivering value to farmers and customers.

The CWB has identified several key measures for each of these areas of value creation. Each year, the measures are reviewed and refined and annual targets are set in accordance with the organization's strategic objectives. Progress against these targets is measured throughout the year to ensure that the CWB continues to advance its goals and achieve results that are in line with organizational objectives.

HOW THE FINANCIAL STATEMENTS CAPTURE THE BUSINESS

The Canadian Wheat Board Act requires that we establish a separate pool account each crop year (defined as August 1 to July 31) for each of the crops we handle. Currently, we operate five pool accounts each year: one each for wheat, durum and designated barley and two for feed barley. These pool accounts capture the revenues and expenses for tonnes contracted and delivered by farmers, and sales made to customers for each specific crop. After all deliveries contracted for the crop year have been received and all activities related to the sale of grain have been completed, the net earnings for each pool are distributed to producers. We provide a separate statement of operations for each pool account to report on these activities, as well as a combined pool statement of operations.

The net earnings in each pool account are distributed back to the farmers who delivered grain during the pool period, based on sales results by grade. As a result, we do not have any retained earnings or permanent capital. The statement of distribution provides the details of how the net earnings are distributed. This statement reflects initial, adjustment, interim and final pool payments to producers as approved by the Government of Canada. It also includes any special transfers to the Contingency fund and the portion of the government approved payments related to the PPO programs.

The PPO programs were set up to give the farmers more flexibility in pricing their grain and were designed to operate outside of the pool accounts. Therefore, the PPOs do not require that net program results be returned to the users of the program. The CWB bears the risk of the programs and retains the benefits of these programs.

A Contingency fund was established and the net surplus or deficit of the PPO program (the difference between the program sales values and direct program expenses, including the payment to farmers based on contracted values) are transferred to this fund. The Contingency fund provides our only permanent capital; its maximum retained balance is $60 million and it is controlled by legislation.

Since all earnings from the pools are distributed to farmers (except those of the PPO programs), our operations are entirely financed by borrowings. These borrowings are made in various capital markets and are guaranteed by the Government of Canada.

THE CWB: ADDING VALUE FOR FARMERS

Adding value for farmers goes beyond how we market grain. We are advocates on issues that impact farmers' bottom lines, partners in research and development and allies on transportation issues.

We are committed to staying at the forefront of issues that affect farmers' profits. We lobbied against the premature introduction of genetically-modified wheat and lobbied for the expansion of the federal cash advance program. We have been a strong voice with government, appearing before the federal Standing Committee on Finance and urging the government to pay attention to the economic storm battering western Canadian farmers.

At the CWB, we believe in the value of research and development. Whether the outcome is improving farmers' income and operational success, growing sales in our high-value markets or developing relationships with new customers, research and development is key to maintaining our competitive edge. That is why we are committed to investing in research that yields new varieties of disease-resistant wheat and barley, as well as those with specific end-use qualities that customers demand. Our strategic partnerships with centres like the Canadian International Grains Institute (CIGI) or the Canadian Malting Barley Technical Centre (CMBTC) help ensure we maintain and build on our reputation for unparalleled customer service. We are also a driving force in the development of new technology, such as variety identification equipment, which promises to accommodate the introduction of new varieties, while maintaining Canada's quality assurance system.

Transportation is a fundamental issue for farmers. Getting grain grown on the Prairies to port position can be costly and complicated. Limited rail capacity means it can be tough to secure enough rail cars to move farmers' grain. When farmers market as a group through the CWB, they have the clout to demand adequate rail car service. When the railways fail to provide adequate service, we have been able to challenge them – and win. We have lobbied for changes to *The Canadian Transportation Act* that help keep costs in check. We also administer a producer car program, which allows farmers to load grain in their own communities.

CURRENT YEAR RESULTS

Factors that shaped the 2005-06 business conditions

1. World production

Wheat

The International Grains Council (IGC) estimates that world wheat production in 2005-06 declined 11 million tonnes from a record of 629 million tonnes in 2004-05.

The 618-million-tonne crop of 2005-06 was still the second-largest world wheat crop on record. Although overall wheat supply remained extremely high, relatively tight supplies of higher quality, higher-protein wheat kept prices in that market segment stable-to-slightly stronger for the first part of the crop year. Prices of higher quality hard wheat began to strengthen in the winter of 2005-06, in response to production problems in the U.S. hard red winter wheat crop. Conversely, the lower-protein, medium-quality and low-quality segments of the wheat market were priced very aggressively well into the summer of 2006.

The 2005 western Canadian spring wheat crop produced record yields, but protein was almost a full percentage point below the five-year average. Harvest conditions in Western Canada were difficult and the wheat grade pattern, although better than 2004, was one of the poorest on record. As a result, much of the Canadian export supply was competing in the mid- and lower quality segments of the market where competition was very aggressive during 2005-06.

Durum wheat

The size of the 2005-06 global durum crop was down significantly from the previous year at 36 million tonnes, but high carry-in stock levels in the European Union-25 (EU-25) and North America kept the overall world supply at burdensome levels. The price structure remained under pressure until the summer of 2006, when it became clear that the U.S. durum crop was being severely impacted by drought. In 2005, western Canadian durum production reached near record levels, with an output of 5.9 million tonnes. Growing conditions were generally good, although late season rains affected the quality of the crop, resulting in a lower proportion than usual of higher grade durum.

Barley

Global barley production in 2005-06 dipped 14 million tonnes, from 154 million tonnes in 2004-05 to 140 million tonnes. The world supply-demand balance was positive for offshore feed barley prices, which were high enough to draw significant volumes of western Canadian feed barley into export and away from the Canadian domestic market channels.

The world supply-demand situation was quite different for malting barley. Prices were kept in check early in the year by large supplies in the EU and then put under additional pressure for the balance of 2005-06 by Australia, which harvested its second-largest barley crop on record. The prices generally available from malting barley customers stayed relatively weak throughout the crop year.

2. Poor quality crop

Weather again presented western Canadian farmers with many challenges in the 2005-06 crop year. Increased production and record (or near-record) yields for wheat, durum and barley were marred by a second consecutive year of poor harvest conditions. The quality of the crops was damaged by the cool, wet conditions experienced in August and September, which delayed harvest and resulted in downgrading due to mildew, sprouting and bleaching and a lower-than-average grade pattern. As the yields indicate, the 2005 growing season was very good on the Prairies, with the exception of parts of Manitoba, which suffered from excess moisture. Wheat production reached 24.8 million tonnes in Western Canada, with spring wheat comprising 18.4 million tonnes of the total. Durum and barley production reached 5.9 million tonnes and 11.7 million tonnes respectively in 2005. Overall, the quality of the 2005-06 wheat, durum and barley crops was better than 2004-05; however, crop quality still remained significantly below average.

3. Commodity markets

U.S. wheat futures prices trended higher from April 2005 through to July 2006, driven largely by supply concerns in North America and the European region. At times, strong global wheat demand, in addition to unprecedented activity from investment funds in the commodity markets, further intensified the rise in wheat prices. In April 2005, wheat futures on the U.S. exchanges traded at lows of $3.10 in Minneapolis, $3.09 in Kansas and $3.03 in Chicago per bushel. By the end of July 2006, nearby futures levels had reached peak levels of $5.42 in Minneapolis, $5.27 in Kansas and $4.17 in Chicago per bushel.

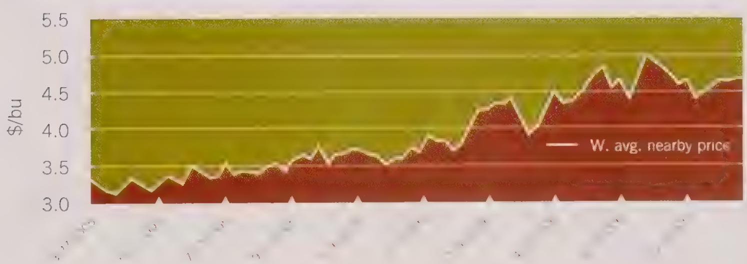
4. Strong Canadian dollar

The U.S. dollar continued its depreciation against all major currencies in 2005-06, including the Canadian dollar. Record commodity prices and a cooling U.S. economy coupled with a strong Canadian economy pushed the Canadian dollar to 25-year highs against the U.S. dollar, as we moved into 2006. Merger and acquisition activity also ensured that demand for the Canadian dollar remained high.

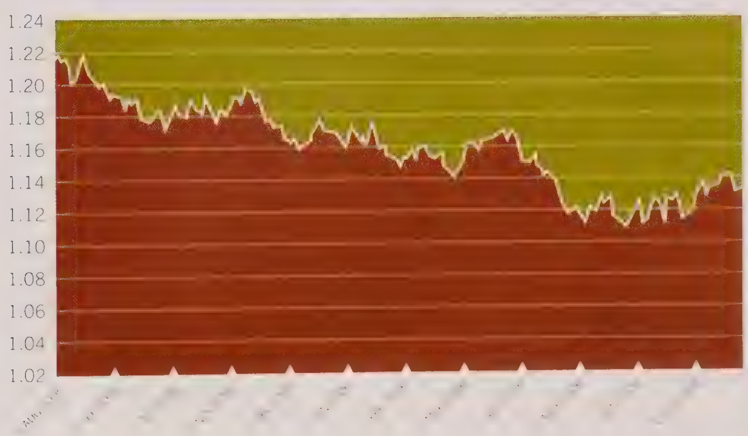
5. U.S. trade case victory

On December 12, 2005, a North American Free Trade Agreement (NAFTA) panel ruled that Canada Western Red Spring (CWRS) wheat should no longer be subject to U.S. import duties. Effective January 2, 2006, U.S. customs was ordered to allow CWRS wheat to flow into the U.S. without duty or liability. The U.S. market is a high-grade destination, so the limited availability of high-quality crops for the past two years has mitigated the damage of the U.S. 11.4-per-cent tariff. However, in high-quality years, the U.S. has been an attractive market for CWRS. With historical sales to the U.S. ranging between 1 and 1.2 million tonnes, the U.S. is a valuable destination for wheat grown on the eastern Prairies.

U.S. wheat futures (nearby Minneapolis, Kansas, Chicago)



Bank of Canada USD/CAD noon rate



OPERATIONAL EFFECTIVENESS

In September 2006, the CWB's board approved the corporate performance measures (CPM) results for 2005-06. Operational effectiveness measures, one subset of the 2005-06 CPM, include: percentage of grain marketed; sales price comparison; contribution from other revenue sources; and net demurrage/despatch. Each operational effectiveness target is based upon consultations with staff, an analysis of historical trends, consideration of future trends and input from senior management. It also undergoes a review by the board of directors. The individual 2005-06 operational effectiveness targets and the Corporation's performance are summarized below:

Measure	Target for 2005-06	Result for 2005-06
Percentage of grain marketed	Wheat – 100 per cent Durum – 65 per cent Designated barley – 100 per cent Feed barley – 100 per cent	Wheat – 96.6 per cent Durum – 70.1 per cent Designated barley – 100 per cent Feed barley – 100 per cent
Sales price comparison (Net price spread realized by the CWB compared to competitors' values for wheat, durum and barley sales.)	Wheat – $5.65 Durum – $4.75 Designated barley – $5.00	Wheat – $8.66 Durum – $5.98 Designated barley – $7.77
Contribution from other revenue sources (Includes items such as net interest earnings from rescheduled receivables, discretionary commodity and foreign-exchange transactions, transportation earnings from tendering and railway terminal agreements.)	Total – $62.7 million	Total – $83.5 million
Net demurrage/despatch	Net zero	Net despatch – $4.6 million

THE WHEAT POOL

		2005-06		2004-05
Receipts (tonnes)		11 971 249		13 296 295
Revenue (per tonne)	$	186.94	$	190.55
Direct costs		22.05		20.08
Net revenue from operations		164.89		170.47
Other income		8.05		8.29
Net interest earnings		2.14		2.95
Administrative expenses		(3.73)		(3.57)
Grain industry organizations		(0.11)		(0.08)
Earnings for distribution	$	171.24	$	178.06

The strategy

The CWB manages marketing risk and price volatility by pricing grain throughout the year, while matching logistical capacity with producer delivery requirements and customer buying patterns. The CWB employs an integrated approach to sales and risk management for the wheat pool, resulting in pricing that encompasses the entire period from the time the crop is seeded through to the following harvest. This approach also allows the CWB to take advantage of market opportunities that arise over the course of the year.

The customer mix of the CWB is structured to maximize revenue, subject to logistical, market and crop conditions. As 2005-06 represented the second consecutive year where grade pattern and average protein content were well below normal, carry-in stocks available for blending with new crop production were also of lower-than-average quality, limiting the volume of high-grade, high-protein milling wheat available for sale in 2005-06. Complicating matters was the fact that global competition in the lower grade, lower protein segment of the milling wheat market was intense throughout most of the year, pressuring returns.

The limited supplies of high-grade, high-protein wheat were targeted to premium markets to maintain market share and maximize revenue. Sales to a number of customers that purchase higher protein milling wheat were curtailed, due to the tightness of our high-protein supplies. As was the case in 2004-05, and considering the limited supplies of higher grade, high-protein milling wheat produced, customers were shifted towards lower grade, lower protein wheat to the extent possible and as overall quality permitted.

The deliveries

Delivery opportunities for wheat varied depending on the contract series, grade and class. All Series A wheat was accepted at 80 per cent, with the exception of Canada Prairie Spring White (CPSW) wheat, Canada Western Extra Strong (CWES) wheat and Canada Western Feed (CWFW) wheat, which were accepted at 100 per cent. All Series B wheat was accepted at 100 per cent, with the exception of No. 1 and No. 2 Canada Western Red Spring (CWRS) wheat (13.4-per-cent-protein and lower) and No. 3 CWRS, which were accepted at 50 per cent. One hundred per cent of Series C contracts were accepted, with the exception of No. 3 CWRS wheat, of which zero per cent was accepted.

By mid-November, at least 40 per cent of Series A CWRS contracts were called for delivery. These calls were generally followed by contract terminations, in an effort to encourage CWRS deliveries into the system throughout the year. By late February, all high-protein No. 1 and No. 2 CWRS was called for delivery. All No. 3 CWRS was called by the end of March, while lower protein No. 1 and No. 2 CWRS was not fully called until the beginning of May. Later delivery calls were also seen for Canada Western Red Winter (CWRW) wheat. Slower movement for lower quality wheat reflected large supplies relative to demand and aggressive competition from sellers of low-quality wheat in international markets early on in the crop year.

Early delivery opportunities were seen for CWES and CPSW, with 100 per cent of Series A contracts called by early November to acquire sufficient quantities at port for sale. By the end of November, 100 per cent of Series A CWFW contracts had been called. Further deliveries of CWFW were secured through seven Guaranteed Delivery Contracts (GDCs). All Series A Canada Prairie Spring Red (CPSR) wheat was called by mid-February to meet spring sales commitments. As usual, calls for Canada Western Soft White Spring (CWSWS) wheat deliveries were spread throughout the year, reflecting the pace of domestic demand.

Deliveries of all non-durum wheat totalled 12 million tonnes, a decrease from 13.3 million tonnes the previous year. Deliveries were accepted into the wheat pool up until October 6, 2006.

The results

The domestic market represented the CWB's single largest market in 2005-06, accounting for 2.15 million tonnes of sales. A total of 9.83 million tonnes of wheat was marketed to offshore markets in 2005-06, compared to 10.61 million tonnes in 2004-05. The CWB's second largest wheat customer was Japan, purchasing 1.14 million tonnes of wheat compared to 856 000 tonnes in 2004-05, maintaining its steady demand for high-quality Canadian milling wheat. The sales volume to Sri Lanka increased dramatically in 2005-06 to 1.04 million tonnes, due in large part to the significant volume of lower grade, lower protein milling wheat available for export. Sales to Mexico accounted for 969 000 tonnes of total sales in 2005-06, representing an increase in sales volume of 305 000 tonnes, versus 2004-05 at 664 000 tonnes. Indonesian purchases were relatively steady in 2005-06 compared to 2004-05 (824 000 tonnes).

Total revenue in the wheat pool was $2.24 billion on 11.97 million tonnes of receipts. This represented an average gross revenue of $186.94 per tonne, down from the average of $190.55 per tonne the previous year. The substantial strengthening of the Canadian dollar versus the U.S. dollar over the course of the year (which reduced the Canadian dollar value of sales), combined with the limited availability of high-grade and high-protein wheat due to poor harvest weather, were the two major factors that contributed to the decline in average returns versus 2004-05. The final pool return for No. 1 CWRS with 13.5-per-cent protein (net of all costs) was $195.14 per tonne in store Vancouver/St. Lawrence, compared to $205 per tonne a year ago. The protein spread between 11.5 per cent and 13.5 per cent was $15.50 per tonne, compared to $15 per tonne the previous year, due to the very limited supplies of high-grade, high-protein North American milling wheat. Given abundant supplies of lower grade milling wheat supplies globally and intense competition in that segment of the market for almost the entire marketing year, final pool returns for No. 3 CWRS and No. 2 CPSR were $152.79 and $137.01 per tonne respectively, compared to $166 and $157 per tonne respectively, in 2004-05.

Largest volume wheat customers

(2005-06 and 2004-05 sales in 000's tonnes)

Direct costs

Direct costs increased $1.97 per tonne to $22.05, primarily due to increases in freight and terminal handling, offset by a reduction in other direct expenses. More specifically:

- Ocean-freight costs were significantly higher as a result of increased Cost, Insurance & Freight (CIF) sales volume through the ports, despite slightly lower ocean rates on a per-tonne basis. This was offset by overall lower U.S./Gulf-freight expense, due to a stronger Canadian dollar and an almost non-existent Mexico rail-shipping program (a result of major freight rate increases).
- Terminal handling was impacted by much higher fobbing charges. This was a result of the higher sales volume on CIF and fobbing contracts, despite a slight decrease in the average fobbing per-tonne rate due to an increased volume of shipments to the eastern ports. Artificial drying increased dramatically, the result of the large amount of poor-quality and damp crop that had to be artificially dried to meet No. 2 and No. 3 CWRS sales commitments.

- A net demotion of wheat stocks was reported during the year. Grain companies were paying for higher grading on deliveries than they received on shipment of the stock, which then led to significant grade demotions. Grade demotions were reported predominantly on No. 1 CWRS.
- There was a decrease in other direct expenses due to lower demurrage resulting from the ability to better match grain needs with shipment periods and decreased per-tonne premiums paid in varietal seed programs in 2005-06.

Other income

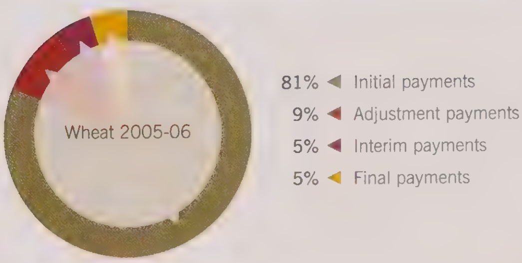
The net decrease is primarily due to a reduction in the freight-adjustment factor recovery, resulting from a decline in tonnes moving through the Thunder Bay catchment and the smaller pool size, as well as the fact that there was no PPO program allocation in 2005-06.

Distribution of earnings

The average sales proceeds available for distribution decreased four per cent or $6.82 per tonne, to $171.24. Of the amounts returned to pool participants, 90 per cent was distributed by April 18, 2006 in the form of initial and adjustment payments. A further five per cent, or $8 per tonne, was recommended as an interim payment and is pending approval by the Minister.

PPOs, like FPCs and BPCs, are designed to operate independently of the pool and therefore do not impact the pool's net results. Just under $117 million of sales returns were paid from the wheat pool to the PPO program, representing the return on the specific grades and classes of wheat delivered under FPCs and BPCs. The PPO program in turn paid farmers at the respective contracted price.

Earnings distributed to farmers



THE DOMESTIC MARKET REPRESENTED THE CWB'S SINGLE LARGEST MARKET IN 2005-06, ACCOUNTING FOR 2.15 MILLION TONNES OF SALES.

THE DURUM POOL

	2005-06	2004-05
Receipts (tonnes)	4 308 906	3 823 967
Revenue (per tonne)	**$ 200.56**	$ 216.37
Direct costs	**33.76**	28.33
Net revenue from operations	**166.80**	188.04
Other income	**5.02**	4.23
Net interest earnings	**1.31**	1.97
Administrative expenses	**(3.73)**	(3.57)
Grain industry organizations	**(0.11)**	(0.08)
Earnings for distribution	**$ 169.29**	$ 190.59

The strategy

Durum yields were well above-average, thanks to good growing conditions. However, as was the case with wheat, conditions during the durum harvest were poor, resulting in a below-average grade pattern. Durum production reached 5.92 million tonnes in 2005-06, compared to the record level of 6.04 million tonnes set in 1998-99. The large crop, combined with durum carry-in, resulted in a record supply of durum in Western Canada. Maximizing market share in both traditional and non-traditional durum markets was imperative if carry-out stocks were to be reduced to manageable levels. The large volume of lower grade durum presented a marketing challenge, with only limited demand for this quality of grain from traditional durum customers. The CWB strategy was to target both existing and new customers to maximize movement opportunities and use Guaranteed Delivery Contracts (GDCs) to link the farm supplies of this quality of durum to those sales opportunities.

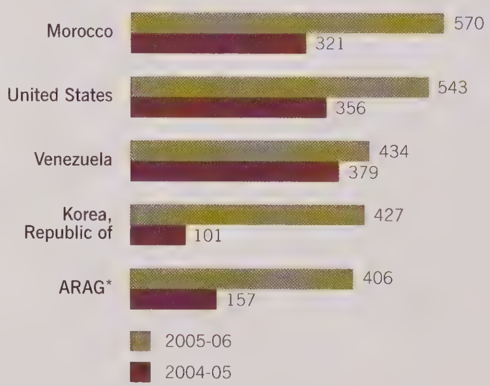
The deliveries

Durum acceptance varied by contract series and market potential. Fifty per cent of all grades of Canada Western Amber Durum (CWAD) wheat signed up under Series A contracts were accepted. Adequate supplies and limited customer demand did not warrant further acceptance of any CWAD under Series B contracts. However, stronger demand later in the crop year presented additional marketing opportunities, requiring a 25-per-cent acceptance on Series C durum contracts.

Generally, delivery opportunities for most CWAD grades were evenly spaced throughout the crop year, with the exception of Nos. 4 and 5 CWAD, which were fully called by late January. Additional supplies of Nos. 4 and 5 CWAD were secured through eight GDCs. Total deliveries to the durum pool were 4.3 million tonnes, reflecting a record export program of 4.2 million tonnes. Pool deliveries were up from 3.8 million tonnes the previous year. In total, the CWB accepted 70.1 per cent of the total durum offered by farmers. The last delivery accepted into the durum pool was on October 6, 2006.

Largest volume durum customers

(2005-06 and 2004-05 sales in 000's tonnes)



* Amsterdam, Rotterdam, Antwerp, Ghent

The results

Offshore markets accounted for 4.06 million tonnes of durum sales this year, compared to 3.56 million tonnes in 2004-05. Sales opportunities were aggressively pursued and initial volume targets were exceeded in a number of key durum markets. Morocco was the largest CWB market for durum, as sales increased to 570 000 tonnes in 2005-06, due in part to reduced domestic production on account of drought. U.S. demand for Canadian durum was also stronger, due partially to limited availability of U.S. durum later in the marketing year; sales rose to 543 000 tonnes, versus 356 000 tonnes in 2004-05. Venezuelan demand for Canadian durum was stronger in 2005-06, accounting for 434 000 tonnes of sales. Sales to Korea were 427 000 tonnes, as the CWB maximized sales of lower grade durum to this non-traditional durum market. Sales to Amsterdam, Rotterdam, Antwerp and Ghent (ARAG) increased to 406 000 tonnes, versus 157 000 in 2004-05. Durum quality problems in Europe were partly responsible for the stronger demand for high-quality milling durum. The stronger Canadian dollar versus its U.S. counterpart was the main driver behind reduced average per-tonne returns, compared to the previous year.

Gross revenues in the durum pool amounted to $864.2 million on 4.31 million tonnes of receipts for an average of $200.56 per tonne, down from the average of $216.37 per tonne in 2004-05.

The stronger Canadian dollar versus the U.S. dollar (compared to 2004-05) meant that the average price per tonne in Canadian dollars was pressured lower. Global durum market fundamentals were not as strong as they were in 2004-05 for most of the year, also impacting returns. Final pool returns for No. 1 CWAD with 13-per-cent protein fell from $214 per tonne in store Vancouver/St. Lawrence to $193.33 per tonne. As western Canadian durum protein content levels were well-below average, the protein spread between 11.5 per cent and 13 per cent remained wide at $13.92 per tonne, compared to $13 per tonne a year ago. The final pool return for No. 3 CWAD was $152.72 per tonne, versus $176 per tonne in 2004-05.

Direct costs

Direct costs increased by $5.43 per tonne to $33.76, due primarily to higher freight charges and grain purchases, offset by a decrease in inventory demotions and inventory storage.

More specifically:

- Freight charges increased, due to higher sales volumes both into the U.S. and through the eastern ports, combined with an increased average freight rate per tonne.
- Higher levels of grain purchases were made for the 2005-06 crop year, again the result of the large volume of producer receipts received subsequent to the 2004-05 crop year's end date and accepted in 2005-06.
- Reported demotion of durum stocks decreased during the year compared to 2004-05. Grade demotions were reported predominantly on No. 1 CWAD.
- Inventory storage declined from 2004-05; the result of no on-farm storage for the 2005-06 durum Identity Preserved Contract Program (IPCP).

Other income

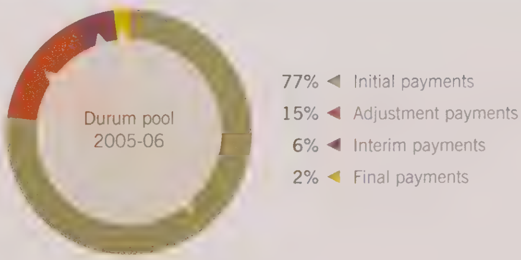
The net increase is primarily due to increased sourcing from country and additional tonnes moving through the U.S., offset by no Producer Payment Options (PPO) program allocation in 2005-06.

Distribution of earnings

The average sales proceeds available for distribution decreased 11 per cent (or $21.30 per tonne) to $169.29. Of the amounts returned to pool participants, 92 per cent was distributed by August 9, 2006 in the form of initial and adjustment payments. A further six per cent, or $10 per tonne, was recommended as an interim payment and is pending approval by the Minister.

For producer receipts delivered under the Fixed Price Contract (FPC) program, $434 million was paid from the pool to the program, representing the final pool return on the specific grades delivered to the durum pool under the FPC program. The payment options program in turn paid farmers at the respective contracted price.

Earnings distributed to farmers



THE DESIGNATED BARLEY POOL

	2005-06	2004-05
Receipts (tonnes)	1 464 682	1 752 501
Revenue (per tonne)	$ 169.57	$ 177.30
Direct costs	24.82	20.57
Net revenue from operations	144.75	156.73
Other income	21.05	20.02
Net interest earnings	0.91	1.05
Administrative expenses	(3.73)	(3.57)
Grain industry organizations	(0.16)	(0.13)
Earnings for distribution	$ 162.82	$ 174.10

The strategy

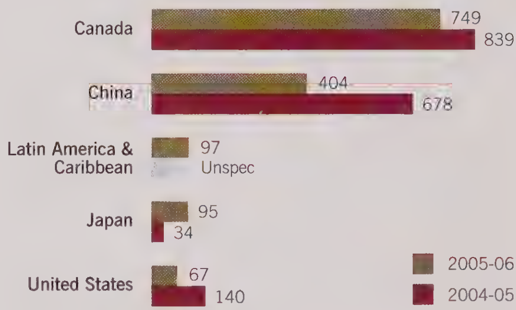
Western Canadian malting barley quality was below-average for the second consecutive year, limiting the volume of barley that met malting standards. The CWB strategy was to maximize malting barley sales early on in the marketing program for two reasons. First, given the quality problems in the malting barley crop, priority was given to early movement to the extent it was possible in order to avoid the possibility of malting barley going out of condition. Second, sales were maximized early, prior to the availability of new crop Australian malting barley supplies, which were expected to pressure international malting barley prices.

The deliveries

The wet harvest conditions significantly reduced the amount of selectable two-row and six-row barley, as much of the barley crop had considerable staining and varying degrees of pre-germination. The majority of two-row delivery opportunities took place near the beginning of the crop year. The Australian crop was well above average and of good quality, which resulted in reduced marketing opportunities for western Canadian farmers in the second half of the crop year. Total receipts were 1.46 million tonnes, down from 1.75 million tonnes the year before. The reduction was primarily due to falling germinations later in the year. Deliveries were accepted into the designated barley pool up until September 15, 2006.

Largest volume designated barley customers

(2005-06 and 2004-05 sales in 000's tonnes)



The results

Malting barley sold to the domestic market amounted to 749 000 tonnes, compared to 839 000 tonnes in 2004-05, as production problems with the Canadian crop limited the supply of selectable malting barley. China remained the single largest export market for malting barley, although sales declined from 678 000 tonnes to 404 000 tonnes; the export program was limited later in the year in part due to aggressive Australian competition, plentiful Australian supplies and quality concerns on the part of buyers. Sales volume to the Caribbean region increased to 97 000 tonnes due to stronger demand for Canadian export malt. Sales volume to the U.S. remained low at 67 000 tonnes, as six-row malting barley supplies were limited due to poor harvest weather and U.S. end-user stocks were relatively abundant.

Gross returns in the designated barley pool were $248.36 million on 1.46 million tonnes of receipts, translating into an average gross revenue of $169.57 per tonne versus $177.30 per tonne in 2004-05. The strength of the Canadian dollar versus the U.S. dollar, as well as increased global availability of malting barley supplies (particularly in Australia) versus 2004-05 impacted returns. The final pool return for Special Select two-row barley in store Vancouver/St. Lawrence was $168.45 per tonne, compared to $179 per tonne a year ago. The final pool return for Special Select six-row barley was $160.87 per tonne, compared to $166 per tonne in 2004-05. The No. 1 Canada Western Feed barley versus Special Select two-row barley spread increased from $48 per tonne in 2004-05, to $52.03 per tonne.

Direct costs

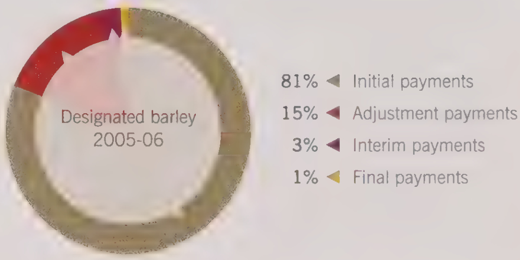
Direct costs increased $4.25 per tonne to $24.82, primarily due to higher freight costs and increased grain purchases, offset by a slight reduction in inventory storage. More specifically:

- Despite a reduction in ocean rates per tonne, ocean-freight costs remain high, as a significant proportion of the pool was exported and the CWB was responsible for ocean freight payment.
- Significantly higher levels of late receipts were accepted in the 2005-06 year, due to contractual commitments, compared to the 2004-05 crop year.
- Inventory storage declined from last year, due to a reduction in average country inventory levels offset slightly by an increase in storage rate.

Other income

The increase in other income is primarily attributed to a greater percentage of grain sourced from country position, which resulted in lower rail-freight clawback income. Maltsters were able to source grain this year closer to their processing plants.

Earnings distributed to farmers



Distribution of earnings

The average sales proceeds available for distribution decreased six per cent, or $11.28 per tonne, to $162.82. Of the amounts returned to pool participants, 96 per cent was distributed by August 9, 2006, in the form of initial and adjustment payments. A further three per cent, or $5 per tonne, was recommended as an interim payment and is pending approval by the Minister.

Just a little over $199,000 of sales returns were paid from the designated barley pool to the PPO program, representing the return on the specific grades and classes of barley delivered under the FPC and BPC. The PPO program in turn, paid farmers at the respective contracted price.

THE FEED BARLEY POOL A

	2005-06	2004-05
Receipts (tonnes)	915 783	29 022
Revenue (per tonne)	$ 138.84	$ 153.31
Direct costs	9.08	89.60
Net revenue from operations	129.76	63.71
Other income	0.32	20.76
Net interest earnings	2.46	85.55
Administrative expenses	(3.52)	(3.57)
Grain industry organizations	(0.09)	(0.09)
Earnings for distribution	128.93	166.36
Transferred to Contingency fund	–	51.15
Earnings distributed to pool participants	$ 128.93	$ 115.21

The strategy

Opportunities for the CWB to market significant volumes of feed barley for export presented themselves throughout the duration of pool A, given positive global feed barley market fundamentals and sustained farmer interest in marketing feed barley through the CWB. The CWB strategy was to take advantage of each and every window of opportunity to move feed barley, until farmers' interest in delivering to the feed barley pool was satisfied. Exclusive use of Guaranteed Delivery Contracts (GDCs), in combination with tendering through the grain companies, successfully facilitated precise matching of farmer interest to buyer demand and ensured timely loading and sales execution.

The deliveries

Farmer interest in marketing feed barley through the CWB was sustained throughout the duration of pool A, as returns in the export market were relatively more attractive than the domestic market. GDCs were also an important factor in creating farmer interest in marketing feed barley through the CWB, given greater certainty surrounding cash flow and timing of delivery. Higher-than-normal barley yields in Western Canada for 2005-06, and a general abundance of feed grains in the domestic market due to adverse weather conditions during harvest were also factors that influenced farmers' feed barley marketing decisions and resulted in total feed barley receipts for pool A of 915 783 tonnes. The last delivery accepted into pool A was on February 17, 2006.

The results

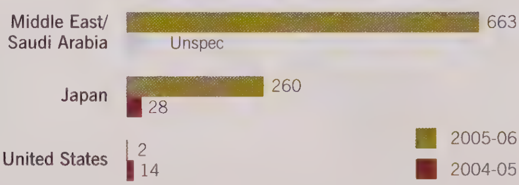
A combination of factors contributed to the large size of pool A, namely production problems with key exporters, timely demand from importers in relation to export availability from competitors, low ocean-freight rates and sustained farmer interest in marketing feed barley for export through the CWB.

Sales to Middle East destinations represented 663 000 tonnes of total Feed Barley exports of pool A, while Japan represented 260 000 tonnes of sales.

In total, feed barley pool A returned $127.15 million in gross revenues on 915 783 tonnes of receipts, or an average of $138.84 per tonne. Final pool returns for No. 1 Canada Western Feed barley in store Vancouver/ St. Lawrence yielded $130.20 per tonne, compared to $116.72 the previous year.

Largest volume feed barley pool A customers

(2005-06 and 2004-05 sales in 000's tonnes)



Direct costs

The change in pool size of the 2005-06 pool A caused greater volatility in the per-tonne rate calculated compared to 2004-05 pool A. As such, direct costs reflect a decreased per-tonne cost of $80.52, which is primarily due to:

- Terminal handling costs. These costs are reasonable relative to the volume shipped, but costs on a per-tonne basis dramatically decreased due to the significantly larger pool size;
- Other grain purchases consisting of overages and late receipts on which calculated per-tonne costs dramatically decreased due to significantly larger pool size (net margin return realized on these purchased tonnes were all distributed to the pool A participants);
- Other direct expenses, which reflect collective impact of accrual differences in 2004-05.

Other income

The net decrease is primarily attributed to increased sales to the Middle East and the resulting decline in the rail-freight clawback.

Earnings distributed to farmers

Distribution of earnings

The average sales proceeds available for distribution were $128.93 per tonne. Of the amounts returned to pool participants, 81 per cent was distributed in the form of initial payments. A further eight per cent, or $10 per tonne, was distributed as an interim payment on May 9, 2006.

THE FEED BARLEY POOL B

		2005-06		2004-05
Receipts (tonnes)		127 464		468 736
Revenue (per tonne)	$	162.26	$	134.73
Direct costs		32.57		6.50
Net revenue from operations		129.69		128.23
Other income		0.98		2.59
Net interest earnings		10.60		4.83
Administrative expenses		(3.73)		(3.57)
Grain industry organizations		(0.11)		(0.08)
Earnings for distribution		137.43		132.00
Transferred to Contingency fund		6.19		1.69
Earnings distributed to pool participants	$	131.24	$	130.31

The strategy

Similar to the previous year (though not to the same extent) global feed barley market fundamentals in 2005 strengthened during the spring and summer months, as exportable supplies of our key competitors tightened due primarily to crop production problems. This development provided an opportunity for the CWB to achieve incrementally higher net returns during the course of feed barley pool B. As the positive developments in the feed barley price outlook unfolded, farmer interest in marketing feed barley supplies through the CWB increased.

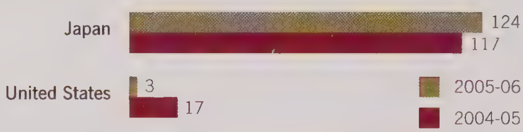
The CWB feed barley marketing strategy was to fully exploit feed barley marketing opportunities as they arose, to the extent farmer feed barley commitments provided, ensuring efficient origination and execution through the use of GDCs and tendering.

The deliveries

Total feed barley receipts for pool B were 127 464 tonnes. Following an upsurge in ocean-freight rates and the Australian harvest in December of a near record barley harvest, opportunities to export feed barley at good free on board (FOB) values diminished significantly. The pool B Pool Return Outlook (PRO) was attractive to producers primarily in the Peace River. Limited sales were made to Japan. Deliveries into pool B were accepted up until September 15, 2006.

Largest volume feed barley pool B customers

(2005-06 and 2004-05 sales in 000's tonnes)



The results

Feed barley sales to Japan amounted to 124 000 tonnes, as marketing opportunities arose due to limited competition from Australia and the United States. Marketing opportunities to the Middle East were limited, compared to 2004-05. Feed barley marketing was focused on Japan, where higher average returns could be achieved.

Gross revenue in feed barley pool B was $20.68 million on 127 464 tonnes of receipts, representing an average of $162.26 per tonne, versus $134.73 per tonne in the previous year. The final pool return for No. 1 Canada Western feed barley in store Vancouver/St. Lawrence was $131.68 per tonne, unchanged from 2004-05.

Direct costs

The small pool size of the 2005-06 pool B caused greater volatility in the per-tonne rate calculated. As such, direct costs reflect an increased per tonne cost of $26.07, which is primarily due to:

- Terminal handling costs (which have not changed significantly); however, costs on a per-tonne basis dramatically increased due to the small pool size fluctuation;
- Other grain purchases consisting of overages and late receipts on which calculated per-tonne costs dramatically increased due to pool size fluctuation (net margin return realized on these purchased tonnes were all distributed to the pool B participants).
- Other direct expenses that include accrual differences, which are offset by a proportionate allocation of interest earnings prior to any net interest transfer to the Contingency fund.

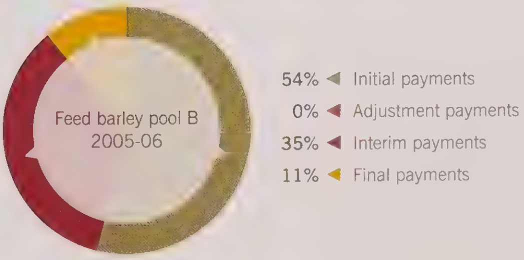
Other income

The net decrease is primarily attributed to decreased sales to the U.S. and the resulting decline in the rail-freight clawback.

Distribution of earnings

The average sales proceeds available for distribution were $137.43 per tonne. Of the amounts returned to pool participants, 54 per cent was distributed in the form of initial payments. A further 35 per cent, or $46 per tonne, was recommended as an interim payment and is pending approval by the Minister.

Earnings distributed to farmers



AS THE POSITIVE DEVELOPMENTS IN THE FEED BARLEY PRICE OUTLOOK UNFOLDED, FARMER INTEREST IN MARKETING FEED BARLEY SUPPLIES THROUGH THE CWB INCREASED.

INDIRECT INCOME AND EXPENSES

Administrative expenses

Administrative expenses increased $1.9 million or three per cent from the previous crop year, to $71.9 million.

This increase is mainly due to the write down of a system development project and related computer equipment. During the year, the Corporation initiated a comprehensive three-year systems development project to improve the efficiency of its supply chain. The Supply Chain Transformation (SCT) project replaced some previous systems development projects that were in progress. Seventy per cent of the prior systems development project-in-progress capitalized costs were transferred to the SCT project, with the remaining 30 per cent, or $2.4 million, being written down during the year.

The cost of salaries and benefits decreased slightly during the year, with the savings from staff reductions related to outsourcing being offset by a four-per-cent increase in remaining salaries. This was the first full year of our Information & Technology (I&T) outsourcing agreement, and the I&T salary savings, coupled with lower computer-services costs and I&T-related management-consulting costs, offset the increase outsourced costs.

Grain industry organizations

The CWB continued to provide support for organizations that benefit, both directly and indirectly, western Canadian grain farmers. During 2005-06, the CWB contributed $2.1 million to the operations of the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC). CIGI and CMBTC play an integral role in the CWB's marketing and product development strategies, by providing technical information and educational programs to customers.

Net interest earnings

(Dollars amounts in 000's)	2005-06	2004-05
Interest on credit sales		
Revenue on credit sales receivable	$ **152,041**	$ 150,628
Expense on borrowings used to finance credit sales receivables	**119,975**	106,821
Net interest on credit sales	**32,066**	43,807
Interest revenue (expense) on pool account balances	**(1,267)**	5,609
Other interest		
Revenue	**7,558**	5,870
Expense	**2,219**	1,902
Net other interest revenue	**5,339**	3,968
Total net interest earnings	$ **36,138**	$ 53,384

Net interest earnings of $36.1 million were due primarily to the net interest earned on amounts owed to the CWB on credit grain sales made under the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). When the CWB sells grain on credit, it must borrow an equal amount to facilitate payments to farmers until the credit is repaid to the CWB. The CWB is able to borrow at interest rates lower than those rates received by the CWB from the credit customer. As a result, the CWB earns an interest "spread."

During periods when interest rates are trending downwards or upwards, the spread will widen or narrow because of the differences in terms between the receivable and the related borrowing. With the rates increasing during the year, the spread margin narrowed compared to 2004-05, as a result of timing differences between the change in CWB's borrowing interest rates and the date when the rescheduled lending rates were reset.

Net interest revenue has decreased in 2005-06, primarily as a result of these narrowing spreads and a significant decrease in outstanding balances partly offset by increasing interest rates. The reduced outstanding balances were due to sizable repayments from Algeria, Iraq, Poland and Russia during the year.

The interest on the pool account balances has decreased as a result of the net equity position in wheat being less favourable in the current crop year.

Other interest revenue from customers, which includes receipt of sales proceeds on non-credit sales, will fluctuate year-over-year, as the number of days outstanding on these arrangements will typically range between one and 10. The increase is driven by higher average monthly balances on cash margin accounts, as a result of greater Fixed Price Contract (FPC) sign-up. Expenses, primarily from financing costs such as treasury fees and bank charges, make up the main portion of other interest expense.

THE CWB CONTINUED TO PROVIDE SUPPORT FOR ORGANIZATIONS THAT BENEFIT, BOTH DIRECTLY AND INDIRECTLY, WESTERN CANADIAN GRAIN FARMERS.

PRODUCER PAYMENT OPTIONS (PPOS)

FINANCIAL RESULTS

1) Fixed Price Contract (FPC)
Basis Price Contract (BPC)
Daily Price Contract (DPC)

In 2005-06, there were 693 360 tonnes delivered to the FPC/BPC/DPC programs. This is a 478 094 tonne decline compared to 2004-05, and it primarily occurred in the wheat program. In 2004-05, prices early in the program were very attractive and significant sign-up occurred. Deliveries made under these programs are outside the pool accounts, with all returns (initial, interim and final payments) that otherwise would have been paid to farmers, being paid instead to these programs. This amounted to $117 million for wheat, $0.4 million for durum, $0.2 million for designated barley and $0.04 million for barley. When other revenues, like liquated damages and program expenses (including net hedging results, interest and administration expenses) are accounted for, the programs generated a net loss of $6.9 million. This loss is primarily attributable to wheat. This is in contrast to the previous year, where basis levels increased dramatically after the rain downgraded much of the North American harvest. This change in basis levels occurred after much of the 2004-05 program was priced by producers, creating significant gains.

The DPC is a new contract introduced in 2005-06. It offers producers an opportunity to capture daily cash prices, based on the U.S. market. A total of 73 904 tonnes was delivered to the program. Pool returns paid to this program were $12.8 million. After accounting for net hedging gains and liquated damages (offset by contracted values, interest and administrative expense), the program had a net deficit of $0.9 million.

2) Early Payment Options (EPO)

In the 2005-06 crop year, the EPO was expanded to include a 100-per-cent EPO for durum and designated barley. This is in addition to wheat and feed barley, which was introduced in 2004-05.

Tonnes delivered to EPO were similar in 2005-06 at 2 658 147 tonnes, compared to 3 081 520 tonnes in 2004-05. The EPO discount, charged to farmers for risk, time value of money and program administration costs, was $3 million. After accounting for liquated damages charged for no-delivery, net interest expense and net hedging results, a net surplus of $0.1 million was generated.

Effective 2005-06, the administration expense includes the full cost of running the programs, whereas previously it reflected only incremental costs and administration expenses being applied to the EPO programs. These changes were made to ensure consistency with the principle that these programs operate outside the pool account and are self-sufficient. The cost is recovered from program participants through the program discount. To the extent that the per-tonne cost included in the program discount differs from the actual charge, the Contingency fund will absorb the difference. This change was approved by the board of directors.

3) Pre-delivery Top-up (PDT)

Wheat growers who have taken a fall cash advance can apply for an additional $30 per tonne for their grain, to be paid prior to delivery. Participants are responsible for the costs of the program, including risk management, administration costs and time value of money. Repayments are received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. PDT payments of $5.9 million were issued to 323 farmers (compared to $0.7 million distributed to 67 farmers in 2004-05).

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk of being unable to meet corporate obligations. We operate diversified debt issuance programs to meet daily cash requirements and also hold highly-rated short-term investments to ensure that sufficient funds are available to meet debt obligations. Additionally, we maintain lines of credit with financial institutions to provide supplementary access to funds.

Cash flow – sources and uses

Since we distribute all pool account earnings to farmers, operations are almost entirely financed by debt. During the year, cash from operations may also be available. Our primary uses of funds are cash distributions to farmers, operational expenses and capital spending.

Cash provided by operations was $2.89 billion, down from the previous year, due to a lower quality crop and global pressure on prices. Investing activities contributed $1.14 billion, primarily due to credit receivable regular scheduled repayments and prepayments. This also impacted financing activities as borrowing requirements declined.

We issue adjustment and interim payments during the year. After all the accounting has been concluded, we issue a final payment to producers who delivered into the pool accounts. Total distributions to producers totalled $3.1 billion. Because the Corporation is typically in a net borrowing position, there is a zero net cash position at the end of the year.

We believe that cash generated from operations supplemented by debt issued will be sufficient to meet our anticipated capital expenditures and other cash requirements in 2006-07.

Balance sheet

The Balance sheet of the Corporation was significantly affected by the prepayment of credit receivables over the course of the year. Over $1 billion of repayments and prepayments occurred. The advance payment programs were very active over the year and increased by more than $100 million, reflecting the cash requirements of producers. The large net decrease in assets had a direct effect on the borrowings, reducing them substantially.

Over the next five years, credit receivables repayments will result in significantly lower credit receivables and corresponding borrowing levels. It will also have the effect of lowering net interest earnings. The CWB estimates that net interest earnings will progressively decline to $4 million by 2009-10.

Debt instruments

Under *The Canadian Wheat Board Act* (*The Act*) and with the approval of the federal Minister of Finance, the CWB is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness.

All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the Minister of Finance from the time of issuance to the date of maturity. Therefore, the credit ratings of these debt issues reflect the top credit quality of the Government of Canada. Long-term and short-term ratings of the debt are currently as follows: Moody's Investors Service Senior Unsecured Ratings (Aaa/P-1), Standard & Poor's Ratings Group Issue Credit Ratings (AAA/A-1+) and Dominion Bond Rating Service Debt Ratings (AAA//R-1(high)).

THE CWB GENERATED OVER $4 MILLION IN VALUE TO FARMERS THROUGH INNOVATIVE DEBT-MANAGEMENT STRATEGIES.

We borrow money to finance grain inventories, accounts receivable from credit sales and administrative and operating expenses, and to administer the Government of Canada's advance payment programs. We borrow in a variety of currencies, but mitigate currency risk by converting debt issued into either Canadian or U.S. dollars to match the assets being financed.

We manage multiple debt programs to minimize borrowing costs and manage liquidity risk. Total debt outstanding ranged from $3 billion to $4 billion (Canadian dollar equivalent) in 2005-06. Our debt programs include:

- Domestic commercial paper program (the "Wheat Board Note" program);
- U.S. commercial paper program;
- Euro commercial paper program;
- Euro medium-term note program; and
- Domestic medium-term note program.

Although the notes issued under the Euro medium-term note program have an original term to maturity of up to 15 years and are therefore considered a long-term debt for reporting purposes, many of these notes are redeemable by the CWB before maturity, due to embedded call features.

Net borrowings decreased from $4.2 billion at the 2004-05 year-end to $3.3 billion at the close of 2005-06. The decline is primarily due to the repayment of accounts receivable from credit sales.

Off-balance sheet arrangements

We enter into off-balance sheet derivative instruments in the normal course of business. We use derivative financial instruments to manage exposure to commodity price, interest-rate and foreign-exchange rate fluctuations. Only our hedging activities are represented as off-balance sheet items.

We use derivative instruments on futures exchanges to manage the risk of adverse movements in the price of grain. We use interest-rate swaps to manage the interest rates on our debt portfolio and to manage overall borrowing costs. We primarily use foreign-exchange contracts to hedge currency exposure arising from grain sales and funding operations. These hedging activities are further discussed under the "Market risk" heading of the Financial risk management section of the Management Discussion and Analysis.

CONTINGENCY FUND

The Act provides for the establishment of a contingency fund. The Contingency fund can be populated through a variety of mechanisms, including the results of operations of the PPO programs or other sources of revenue received in the course of operations. One of the purposes of the fund is to cover deficits or retain surpluses that may occur as a result of the operation of the PPO programs. *The Act* also requires that all revenue generated, less the cost of operations, be distributed through the pool accounts. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $50 million. During 2005-06, the Minister increased the limit to $60 million through an Order in Council (OIC) approval.

During the year, a $6.7 million net deficit was transferred to the Contingency fund as a result of the PPO programs. In addition, interest earnings on feed barley totalling $789,207 were transferred to the fund.

FINANCIAL RISK MANAGEMENT

We seek to minimize risks related to the financial operations of the Corporation. We actively manage exposure to financial risks and ensure adherence to approved corporate policies and risk-management guidelines.

Governance framework

The board of directors approves the risk tolerance of the Corporation and ensures a proper risk-management framework is in place to identify, assess and manage financial risk effectively.

Ongoing responsibilities for managing financial risk are articulated through board-approved policies, other related corporate policies and government and regulatory agency requirements. Board and management oversight, accountability and a strong control culture is in place to manage financial risks.

The Financial Risk Management Committee oversees the financial risk-management operations. This committee establishes and recommends to the board of directors the financial risk-management policies and procedures that ensure policies are consistent with the goals and objectives of the Corporation and are in compliance with government and regulatory requirements. The Financial Risk Management Committee is chaired by the chief executive officer and includes the chief financial officer, chief operating officer and other senior management representatives involved in managing corporate risk.

Corporate Audit Services is responsible for ensuring that the financial risk-management operations are periodically audited.

Market risk

Market risk is the exposure to movements in the level or volatility of market prices that may adversely affect the Corporation's financial condition. The market risks to which the Corporation is exposed include commodity, foreign-exchange and interest-rate risk.

Commodity-price risk is the exposure to reduced revenue due to adverse changes in commodity prices. We use exchange-traded futures and option contracts to mitigate commodity-price risk inherent in its core business for the wheat pool.

Our commodity risk-management program involves an integrated approach that combines sales activity with exchange-traded derivatives, to manage risk of an adverse movement in the price of grain between the time the crop is produced and the time the crop is ultimately sold to customers. Exchange-traded derivatives are used to complement sales activities to provide flexible pricing alternatives to customers, such as basis contracts, and to engage in discretionary pricing activities when necessary. We also manage the commodity-price risk related to the various PPOs offered to Prairie farmers that provide pricing choices and cash flow alternatives.

Foreign-exchange risk is the exposure to changes in foreign-exchange rates that may adversely affect Canadian dollar returns. Sales are priced either directly or indirectly in U.S. dollars, resulting in exposure to foreign-exchange risk.

To manage foreign-exchange risk, we hedge foreign-currency revenue values using derivative contracts to protect the expected Canadian dollar proceeds on sales contracts. An integrated approach is used, together with sales activity. In addition, we manage foreign-exchange risk as it relates to the various PPOs.

Interest-rate risk is the exposure to changes in market interest rates that may adversely affect net interest earnings. Interest-rate risk arises from the mismatch in term and interest-rate re-pricing dates on interest-earning assets and interest-paying liabilities. This risk is managed by the CWB. The spread between the interest-earning assets and interest-paying liabilities represents net interest earnings, which are paid to farmers annually.

Credit risk

Credit risk is the risk of potential loss, should a counterparty fail to meet its contractual obligations. We are exposed to credit risk on non-guaranteed credit sales accounts receivable, as well as credit risk on investments and over-the-counter derivative transactions used to manage market risks. We enter into master agreements with all counterparties to minimize credit, legal and settlement risk. We transact only with highly rated counterparties who meet the requirements of our financial risk-management policies. These policies meet or exceed the Minister of Finance's credit policy guidelines.

The commodity futures and option contracts involve minimal credit risk, as the contracts are exchange-traded. We manage our credit risk on futures and option contracts by dealing through exchanges, that require daily mark-to-market and settlement adjustments.

Accounts receivable from credit sales

We sell grain under two government-guaranteed export credit programs: the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see Financial statement note 3.

Investments

We use short-term investments for the purpose of cash management and liquidity risk management, adhering to the requirements of *The Act*, our annual borrowing authority granted by the Minister of Finance and applicable government guidelines. We manage investment-related credit risk by transacting only with highly rated counterparties.

Operational risk

Operational risk is the risk of loss resulting from a breakdown in administrative procedures and controls or any aspect of operating procedures. Our operational risk-management philosophy encourages an environment of effective operational risk discipline. Operational risk-management activities include segregation of duties, cross-training and professional development, disaster recovery planning, the use of an integrated financial system, internal and external audits and an independent risk-control and reporting function.

WE ACTIVELY MANAGE EXPOSURE TO FINANCIAL RISKS AND ENSURE ADHERENCE TO APPROVED CORPORATE POLICIES AND RISK-MANAGEMENT GUIDELINES.

OUTLOOK

The 2006-07 growing season was warmer and dryer than that of 2005-06. The season started off with excellent sub-soil moisture for farmers to plant the crop. The majority of the western Canadian growing region experienced slightly below-average rainfall during the growing season. Above-average temperatures on the Prairies helped advance the crop two weeks ahead of normal. Overall, Western Canada experienced an exceptional harvest with warm, dry temperatures over most of the growing area. The result was a good quality crop – the best since 2003.

Looking ahead to the coming marketing year, there are several reasons for optimism. Overall market conditions are expected to be good for wheat, durum and barley. Supply-and-demand developments in several key regions of the world are likely to result in strong demand and prices for grain marketed through the CWB. Two factors could temper the benefits for western Canadian farmers, however: a high Canadian dollar, which would diminish returns, and the inability of Canadian railways to provide the capacity required to move this year's crop.

Milling wheat markets are expected to be strong for most of the 2006-07 marketing year.

Global supply-and-demand balance sheets are the tightest in a decade. Supplies have been reduced due to production problems in Argentina, Ukraine, Russia, U.S., EU-25 and Australia. At the same time, wheat demand has been bolstered by strong imports from India, which has a population of more than one billion people. These supply-and-demand fundamentals are expected to bode well for wheat prices in the coming season.

The 2006-07 durum market is poised for improvement after several years of oversupply. Smaller crops in North America, combined with a record CWB durum export program in 2005-06, have tightened the global balance sheet. Durum acres in the U.S. reached their lowest level since 1961. Durum production increased in both Europe and North Africa, which is projected to result in slightly lower global durum imports in the coming year. Overall, demand is expected to exceed production, leading to lower global durum stocks and improved prices.

The barley market environment is anticipated to improve over last year. Global barley production is expected to remain near last year's level, which was five million tonnes below average. Smaller barley crops were harvested in both Canada and the United States. The U.S. is expected to produce the smallest barley crop since 1936. In addition, Australia experienced a drought that dramatically reduced its barley crop. Global crop reductions were tempered by larger barley crops in both Ukraine and Russia. On balance, market conditions look promising for both feed and malting barley in the coming season.

FORWARD-LOOKING STATEMENTS

Certain forward-looking information contained in this annual report is subject to risk and uncertainty because of the reliance on assumptions and estimates based on current information. A number of factors could cause actual results to differ from those expressed. They include, but are not limited to: weather; changes in government policy and regulations; world agriculture commodity prices and markets; shifts in currency values; the nature of the transportation environment, especially for rail within North America and by ocean vessel internationally; and changes in competitive forces and global political/economic conditions, including continuing World Trade Organization (WTO) negotiations with regard to the Minister of Finance's guarantee on the CWB debt and on the government's commitment to guarantee initial payments to farmers. In addition, the long-term real return bond rates continued to decline over the past year to new levels, resulting in significant pressures on pension plan solvency valuations. Additionally, the Government of Canada announced it will hold a barley plebiscite early in 2007. The outcome of the plebiscite and its impact on the CWB's marketing mandate is unknown at the time of writing this report. The Government of Canada has indicated there will be no changes before the 2008-09 crop year to the CWB's mandate to market wheat.

FINANCIAL RESULTS

Management's responsibility for financial reporting

The financial statements of the Canadian Wheat Board included in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the board of directors. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and reflect the results for the 2005-06 pool accounts, Producer Payment Options and the financial status of the Corporation at July 31, 2006.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by corporate audit services that conducts periodic reviews of different aspects of the Corporation's operations.

The board of directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of directors exercises this responsibility through the Audit, Finance and Risk Committee of the board of directors, which is composed of directors who are not employees of the Corporation. The Audit, Finance and Risk Committee meets with management, the internal auditors and the external auditors on a regular basis, and the external and internal auditors have full and free access to the Audit, Finance and Risk Committee.

The Corporation's external auditors, Deloitte & Touche LLP, are responsible for auditing the transactions and financial statements of the Corporation and for issuing their report thereon.

Adrian Measner

Adrian Measner
President & Chief Executive Officer

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Brita Chell
Chief Financial Officer

Winnipeg, Manitoba
November 15, 2006

Auditors' Report

To the Board of Directors of the Canadian Wheat Board

We have audited the financial statements of the Canadian Wheat Board which includes the balance sheet as at July 31, 2006 and the combined statement of pool operations and statement of distribution to producers for the crop year then ended, the statements of operations and statements of distribution to producers for the wheat, durum and designated barley for the crop year ended July 31, 2006, and for barley for the six month period ended January 31, 2006 and for the six month period ended July 31, 2006, the statements of operations for wheat, durum and designated barley producer payment options for the crop year ended July 31, 2006, and for barley for the six month period ended January 31, 2006 and for the six month period ended July 31, 2006, the statement of cash flow for the crop year ended July 31, 2006, and the statement of administrative expenses for the crop year ended July 31, 2006. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2006 and the results of its operations and the cash flow for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
November 15, 2006

BALANCE SHEET

AS AT JULY 31 (dollar amounts in 000's)		2006		2005
ASSETS				
Accounts receivable				
Credit programs (Note 3)	$	2,748,530	$	3,926,944
Non-credit sales		10,732		12,450
Advance payment programs (Note 4)		448,069		333,794
Prepayment of inventory program		30,906		38,914
Other		55,380		50,000
		3,293,617		**4,362,102**
Inventory of grain (Note 5)		783,151		827,153
Deferred and prepaid expenses (Note 6)		107,601		40,187
Capital assets (Note 7)		71,699		47,659
Total assets	**$**	**4,256,068**	**$**	**5,277,101**
LIABILITIES				
Borrowings (Note 8)	$	3,332,317	$	4,150,528
Accounts payable and accrued expenses (Note 9)		146,663		156,391
Liability to agents (Note 10)		381,421		508,595
Liability to producers – Outstanding cheques		21,665		20,703
Liability to producers – Undistributed earnings (Note 11)		324,636		386,651
Provision for producer payment expenses (Note 12)		2,266		1,741
Special account (Note 13)		2,788		3,880
Contingency fund (Note 14)		44,312		48,612
Total liabilities	**$**	**4,256,068**	**$**	**5,277,101**

Approved by the board of directors:

Ken Ritter

Ken Ritter
Chair, board of directors

Adrian Measner

Adrian Measner
President and Chief Executive Officer

COMBINED POOL ACCOUNTS

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006	2005
STATEMENT OF POOL OPERATIONS*		
Receipts (tonnes)	18 788 084	19 370 521
Revenue	$ 3,498,338	$ 3,739,343
Direct costs		
Freight	204,358	181,201
Terminal handling	141,261	114,623
Inventory storage	66,167	74,098
Country inventory financing	6,618	5,489
Inventory adjustments (Note 15)	(20,658)	(18,818)
Other grain purchases (Note 16)	35,824	25,603
Other direct expenses (Note 17)	24,716	35,058
Total direct costs	**458,286**	**417,254**
Net revenue from operations	**3,040,052**	**3,322,089**
Other income (Note 18)	149,274	163,441
Net interest earnings (see p.52)	36,138	53,384
Administrative expenses (Note 19)	(69,844)	(69,212)
Grain industry organizations	(2,131)	(1,647)
Earnings for distribution	**$ 3,153,489**	**$ 3,468,055**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION		
Earnings distributed to pool participants		
Receipts (tonnes)	18 094 724	18 199 067
Initial payments on delivery	$ 2,418,548	$ 2,513,799
Adjustment payments	335,716	302,499
Interim payment	155,652	200,947
Final payment	125,509	223,440
Total earnings distributed to pool participants	3,035,425	3,240,685
Transferred to Contingency fund		
Undistributed earnings (Note 14)	789	2,278
Non-pool Producer Payment Options program		
Receipts (tonnes)	693 360	1 171 454
Sales returns paid to payment program	117,275	225,092
Total distribution	**$ 3,153,489**	**$ 3,468,055**

WHEAT POOL

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	11 971 249		13 296 295	
Revenue	$ 2,237,944	$ 186.94	$ 2,533,640	$ 190.55
Direct costs				
Freight	108,496	9.06	106,536	8.01
Terminal handling	102,106	8.53	83,784	6.30
Inventory storage	38,452	3.21	40,763	3.07
Country inventory financing	4,649	0.39	3,649	0.27
Inventory adjustments (Note 15)	(18,740)	(1.57)	(8,683)	(0.65)
Other grain purchases (Note 16)	11,488	0.96	10,800	0.81
Other direct expenses (Note 17)	17,570	1.47	30,254	2.27
Total direct costs	**264,021**	**22.05**	**267,103**	**20.08**
Net revenue from operations	**1,973,923**	**164.89**	**2,266,537**	**170.47**
Other income (Note 18)	96,404	8.05	110,338	8.29
Net interest earnings	25,578	2.14	39,211	2.95
Administrative expenses (Note 19)	(44,625)	(3.73)	(47,508)	(3.57)
Grain industry organizations	(1,319)	(0.11)	(1,076)	(0.08)
Earnings for distribution	**$ 2,049,961**	**$ 171.24**	**$ 2,367,502**	**$ 178.06**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
Earnings distributed to pool participants				
Receipts (tonnes)	11 282 096		12 125 384	
Initial payments on delivery	$ 1,577,033	$ 139.78	$ 1,690,743	$ 139.44
Adjustment payments	171,981	15.24	178,271	14.70
Interim payment	90,256	8.00	127,387	10.51
Final payment	94,094	8.34	146,115	12.05
Total earnings distributed to pool participants	1,933,364	171.36	2,142,516	176.70
Non-pool Producer Payment Options program				
Receipts (tonnes)	689 153		1 170 911	
Sales returns paid to payment program	116,597	169.19	224,986	192.15
Total distribution	**$ 2,049,961**	**$ 171.24**	**$ 2,367,502**	**$ 178.06**

DURUM POOL

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006		2005	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	4 308 906		3 823 967	
Revenue	**$ 864,199**	**$ 200.56**	**$ 827,390**	**$ 216.37**
Direct costs				
Freight	81,824	18.99	60,621	15.85
Terminal handling	28,811	6.69	23,978	6.27
Inventory storage	14,896	3.46	17,676	4.62
Country inventory financing	1,365	0.32	1,113	0.29
Inventory adjustments (Note 15)	(1,980)	(0.47)	(10,361)	(2.71)
Other grain purchases (Note 16)	14,717	3.42	10,596	2.77
Other direct expenses (Note 17)	5,816	1.35	4,804	1.24
Total direct costs	**145,449**	**33.76**	**108,427**	**28.33**
Net revenue from operations	**718,750**	**166.80**	**718,963**	**188.04**
Other income (Note 18)	21,620	5.02	16,187	4.23
Net interest earnings	5,622	1.31	7,576	1.97
Administrative expenses (Note 19)	(16,062)	(3.73)	(13,663)	(3.57)
Grain industry organizations	(475)	(0.11)	(309)	(0.08)
Earnings for distribution	**$ 729,455**	**$ 169.29**	**$ 728,754**	**$ 190.59**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	4 306 248		3 823 579	
Initial payments on delivery	$ 559,368	$ 129.90	$ 540,979	$ 141.48
Adjustment payments	113,643	26.39	88,275	23.09
Interim payment	43,062	10.00	54,223	14.18
Final payment	12,948	3.01	45,192	11.82
Total earnings distributed to pool participants	729,021	169.30	728,669	190.57
Non-pool Producer Payment Options program				
Receipts (tonnes)	2 658		388	
Sales returns paid to payment program	434	163.38	85	217.99
Total distribution	**$ 729,455**	**$ 169.29**	**$ 728,754**	**$ 190.59**

DESIGNATED BARLEY POOL

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006		2005	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	1 464 682		1 752 501	
Revenue	**$ 248,361**	**$ 169.57**	**$ 310,711**	**$ 177.30**
Direct costs				
Freight	13,823	9.44	13,753	7.85
Terminal handling	4,723	3.22	5,136	2.93
Inventory storage	11,640	7.95	14,676	8.37
Country inventory financing	518	0.35	684	0.39
Inventory adjustments (Note 15)	(189)	(0.13)	196	0.11
Other grain purchases (Note 16)	6,208	4.24	2,458	1.40
Other direct expenses (Note 17)	(373)	(0.25)	(830)	(0.48)
Total direct costs	**36,350**	**24.82**	**36,073**	**20.57**
Net revenue from operations	**212,011**	**144.75**	**274,638**	**156.73**
Other income (Note 18)	30,834	21.05	35,095	20.02
Net interest earnings	1,331	0.91	1,848	1.05
Administrative expenses (Note 19)	(5,460)	(3.73)	(6,262)	(3.57)
Grain industry organizations	(241)	(0.16)	(222)	(0.13)
Earnings for distribution	**$ 238,475**	**$ 162.82**	**$ 305,097**	**$ 174.10**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
Earnings distributed to pool participants				
Receipts (tonnes)	1 463 476		1 752 455	
Initial payments on delivery	$ 193,088	$ 131.94	$ 245,659	$ 140.18
Adjustment payments	34,998	23.91	35,953	20.52
Interim payment	7,317	5.00	–	–
Final payment	2,873	1.96	23,477	13.40
Total earnings distributed to pool participants	238,276	162.81	305,089	174.10
Non-pool Producer Payment Options program				
Receipts (tonnes)	1 206		46	
Sales returns paid to payment program	199	165.18	8	174.57
Total distribution	**$ 238,475**	**$ 162.82**	**$ 305,097**	**$ 174.10**

FEED BARLEY POOL A

FOR THE CROP YEAR ENDED JANUARY 31 (dollar amounts in 000's)	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	915 783		29 022	
Revenue	**$ 127,152**	**$ 138.84**	**$ 4,449**	**$ 153.31**
Direct costs				
Freight	47	0.05	(21)	(0.73)
Terminal handling	4,118	4.50	342	11.79
Inventory storage	936	1.02	199	6.86
Country inventory financing	55	0.06	10	0.34
Inventory adjustments (Note 15)	235	0.26	23	0.79
Other grain purchases (Note 16)	2,300	2.51	1,552	53.46
Other direct expenses (Note 17)	623	0.68	495	17.09
Total direct costs	**8,314**	**9.08**	**2,600**	**89.60**
Net revenue from operations	**118,838**	**129.76**	**1,849**	**63.71**
Other income (Note 18)	291	0.32	602	20.76
Net interest earnings	2,256	2.46	2,483	85.55
Administrative expenses (Note 19)	(3,222)	(3.52)	(104)	(3.57)
Grain industry organizations	(82)	(0.09)	(2)	(0.09)
Earnings for distribution	**$ 118,081**	**$ 128.93**	**$ 4,828**	**$ 166.36**

* Excludes operation of Producer Payment Options program

	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	915 440		28 913	
Initial payments on delivery	$ 79,946	$ 87.33	$ 2,385	$ 82.46
Adjustment payments	15,094	16.48	–	–
Interim payment	9,154	10.00	578	20.00
Final payment	13,842	15.12	368	12.75
Total earnings distributed to pool participants	118,036	128.93	3,331	115.21
Transferred to Contingency fund				
Undistributed earnings (Note 14)	–	–	1,484	51.15
Non-pool Producer Payment Options program				
Receipts (tonnes)	343		109	
Sales returns paid to payment program	45	129.87	13	116.72
Total distribution	**$ 118,081**	**$ 128.93**	**$ 4,828**	**$ 166.36**

FEED BARLEY POOL B

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006		2005	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	127 464		468 736	
Revenue	**$ 20,682**	**$ 162.26**	**$ 63,153**	**$ 134.73**
Direct costs				
Freight	168	1.31	312	0.66
Terminal handling	1,503	11.79	1,383	2.95
Inventory storage	243	1.91	784	1.67
Country inventory financing	31	0.24	33	0.07
Inventory adjustments (Note 15)	16	0.13	7	0.02
Other grain purchases (Note 16)	1,111	8.72	197	0.42
Other direct expenses (Note 17)	1,080	8.47	335	0.71
Total direct costs	**4,152**	**32.57**	**3,051**	**6.50**
Net revenue from operations	**16,530**	**129.69**	**60,102**	**128.23**
Other income (Note 18)	125	0.98	1,219	2.59
Net interest earnings	1,351	10.60	2,266	4.83
Administrative expenses (Note 19)	(475)	(3.73)	(1,675)	(3.57)
Grain industry organizations	(14)	(0.11)	(38)	(0.08)
Earnings for distribution	**$ 17,517**	**$ 137.43**	**$ 61,874**	**$ 132.00**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION	2006 Total	2006 Per tonne	2005 Total	2005 Per tonne
Earnings distributed to pool participants				
Receipts (tonnes)	127 464		468 736	
Initial payments on delivery	$ 9,113	$ 71.49	$ 34,033	$ 72.61
Adjustment payments	–	–	–	–
Interim payment	5,863	46.00	18,759	40.02
Final payment	1,752	13.75	8,288	17.68
Total earnings distributed to pool participants	16,728	131.24	61,080	130.31
Transferred to Contingency fund				
Undistributed earnings (Note 14)	789	6.19	794	1.69
Total distribution	**$ 17,517**	**$ 137.43**	**$ 61,874**	**$ 132.00**

STATEMENT OF PRODUCER PAYMENT OPTIONS PROGRAM OPERATIONS

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2006		2005
WHEAT PROGRAMS				
FIXED / BASIS / DAILY PRICE CONTRACT				
Receipts (tonnes)		689 153		1 170 911
Revenue				
Sales returns paid to program	$	116,597	$	224,986
Net hedging activity		–		57,249
Liquidated damages		917		1,185
Net interest		–		43
		117,514		283,463
Expense				
Contracted amounts paid to producers		123,234		246,327
Net hedging activity		170		–
Net interest		228		–
Administrative expense (Note 19)		729		299
		124,361		246,626
Surplus on program operations		**(6,847)**		**36,837**
Hedging gain distribution		**–**		**(5,060)**
Net surplus (deficit) on program operations	**$**	**(6,847)**	**$**	**31,777**
EARLY PAYMENT OPTION				
Receipts (tonnes)		1 080 124		1 854 711
Revenue				
Program discount	$	1,544	$	3,219
Liquidated damages		73		110
		1,617		3,329
Expense				
Pool returns less than contracted price		647		299
Net hedging activity		579		305
Net interest		102		205
Administrative expense (Note 19)		400		–
		1,728		809
Net surplus (deficit) on program operations	**$**	**(111)**	**$**	**2,520**
Transfer to pool participants (Note 18)		**–**		**(7,354)**
TOTAL WHEAT PROGRAMS (Note 14)	**$**	**(6,958)**	**$**	**26,943**

STATEMENT OF PRODUCER PAYMENT OPTIONS PROGRAM OPERATIONS

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2006		2005
DURUM PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		2 658		388
Revenue				
Sales returns paid to program	$	434	$	85
Net hedging activity		–		3
Liquidated damages		2		5
		436		93
Expense				
Contracted amounts paid to producers		429		77
Net hedging activity		37		–
Administrative expense (Note 19)		3		–
		469		77
Net surplus (deficit) on program operations	$	**(33)**	$	**16**
EARLY PAYMENT OPTION				
Receipts (tonnes)		402 084		531 306
Revenue				
Program discount	$	532	$	379
Liquidated damages		48		23
		580		402
Expense				
Pool returns less than contracted price		29		–
Net hedging activity		228		123
Net interest		25		16
Administrative expense (Note 19)		149		–
		431		139
Net surplus on program operations	$	**149**	$	**263**
Transfer to pool participants (Note 18)		–		**(60)**
TOTAL DURUM PROGRAMS (Note 14)	$	**116**	$	**219**

STATEMENT OF PRODUCER PAYMENT OPTIONS PROGRAM OPERATIONS

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2006		2005
DESIGNATED BARLEY PROGRAMS				
FIXED PRICE CONTRACTS				
Receipts (tonnes)		1 206		46
Revenue				
Sales returns paid to program	$	199	$	8
Net hedging activity		17		–
Liquidated damages		7		–
		223		8
Expense				
Contracted amounts paid to producers		201		8
Net interest		2		–
Administrative expense (Note 19)		1		–
		204		8
Net surplus on program operations	**$**	**19**	**$**	**–**
EARLY PAYMENT OPTION				
Receipts (tonnes)		295 244		255 682
Revenue				
Program discount	$	317	$	185
Net hedging activity		–		34
Liquidated damages		13		9
		330		228
Expense				
Pool returns less than contracted price		66		–
Net hedging activity		9		–
Net interest		25		9
Administrative expense (Note 19)		109		–
		209		9
Net surplus on program operations	**$**	**121**	**$**	**219**
Transfer to pool participants (Note 18)		–		**(47)**
TOTAL DESIGNATED BARLEY PROGRAMS (Note 14)	**$**	**140**	**$**	**172**

STATEMENT OF PRODUCER PAYMENT OPTIONS PROGRAM OPERATIONS

FOR THE SIX MONTHS ENDED JANUARY 31 (dollar amounts in 000's)		**2006**		2005
BARLEY POOL A PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**343**		**109**
Revenue				
Sales returns paid to program	$	45	$	13
		45		13
Expense				
Contracted amounts paid to producers		43		13
		43		13
Net surplus on program operations	**$**	**2**	**$**	**–**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**780 894**		**11 811**
Revenue				
Program discount	$	497	$	20
Net hedging activity		–		50
Liquidated damages		10		–
Net interest		–		17
		507		87
Expense				
Net hedging activity		27		–
Liquidated damages		–		2
Net interest		55		–
Administrative expense (Note 19)		289		–
		371		2
Net surplus on program operations	**$**	**136**	**$**	**85**
TOTAL BARLEY POOL A PROGRAMS (Note 14)	**$**	**138**	**$**	**85**

STATEMENT OF PRODUCER PAYMENT OPTIONS PROGRAM OPERATIONS

FOR THE SIX MONTHS ENDED JULY 31 (dollar amounts in 000's)		2006		2005
BARLEY POOL B PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		–		–
Revenue				
Net hedging activity	$	1	$	–
		1		–
Expense				
Net surplus on program operations	$	1	$	–
EARLY PAYMENT OPTION				
Receipts (tonnes)		99 801		428 010
Revenue				
Program discount	$	66	$	177
Net hedging activity		1		–
Liquidated damages		6		3
Net interest		–		17
		73		197
Expense				
Pool returns less than contracted price		187		–
Net hedging activity		–		15
Net interest		12		–
Administrative expense (Note 19)		37		–
		236		15
Net surplus (deficit) on program operations	$	(163)	$	182
Transfer to pool participants (Note 18)		–		(39)
TOTAL BARLEY POOL B PROGRAMS (Note 14)	$	(162)	$	143

STATEMENT OF CASH FLOW

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2006	2005
Increases (decreases) of cash during the year		
Cash flow from operating activities		
Pool earnings for distribution	$ 3,153,489	$ 3,468,055
Producer Payment Options program operations	(9,577)	12,104
Pre-delivery Top-up program	35	4
Interest earned on non-program Contingency fund balance	1,601	315
Add non-cash items		
Depreciation on CWB hopper cars	2,654	2,634
Depreciation on other capital assets	9,104	10,239
System development write down	2,436	–
Cash flow from operating activities before changes in working capital	3,159,742	3,493,351
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	(109,931)	(2,602)
Inventory of grain	44,002	44,116
Deferred and prepaid expenses	(67,414)	(30,095)
Accounts payable and accrued expenses	(9,729)	6,780
Liability to agents	(127,174)	(33,918)
Liability to producers for outstanding cheques	962	5,583
Provision for producer payment expenses	526	(500)
Special account	(1,092)	(180)
	2,889,892	3,482,535
Cash flow from financing activities		
Decrease in borrowings	(818,211)	(1,331,607)
	(818,211)	(1,331,607)
Cash flow from investing and other activities		
Accounts receivable – Credit programs	1,178,414	1,384,158
Purchase of capital assets	(39,485)	(9,305)
Proceeds from sale of capital assets	1,252	209
	1,140,181	1,375,062
Cash distributions		
Prior year undistributed earnings	(386,651)	(462,321)
Current year distributions prior to July 31	(2,701,304)	(2,817,244)
Non-pool Producer Payment Option program payments	(123,907)	(246,425)
	(3,211,862)	(3,525,990)
Net increase in cash and cash equivalents	–	–
Net cash position at beginning of year	–	–
Net cash position at end of year	$ –	$ –

STATEMENT OF ADMINISTRATIVE EXPENSES

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000		2006		2005
Human resources	$	37,326	$	38,208
Office services		3,497		3,459
Professional fees		12,192		10,181
Computer services		1,634		2,549
Facilities		1,905		1,745
Travel		2,600		2,262
Advertising & promotion		1,639		1,928
Other		1,028		838
Training		819		546
Depreciation		9,104		10,239
Write down of system development and computer equipment asset		2,436		–
Recoveries		(2,252)		(1,965)
Total administrative expenses (Note 19)	**$**	**71,928**	**$**	**69,990**

NOTES TO FINANCIAL STATEMENTS

(dollars in thousands)

1. Act of incorporation and mandate

The Canadian Wheat Board (the Corporation) was established by *The Canadian Wheat Board Act (The Act)*, a statute of the Parliament of Canada. On June 11, 1998, Bill C-4, An *Act to Amend The Canadian Wheat Board Act* continued the Corporation as a shared governance corporation, without share capital, effective December 31, 1998.

The Corporation was created for the purpose of marketing, in an orderly manner, in inter-provincial and export trade, grain grown in Western Canada. The Corporation is headed by a board of directors, comprised of 10 producer-elected and five government-appointed members. The Corporation is accountable for its affairs to both western Canadian farmers through its elected board members and to Parliament through the Minister Responsible for the Canadian Wheat Board.

The Corporation is exempt from income taxes pursuant to Section 149(1)(d) of the *Income Tax Act*.

2. Summary of significant accounting policies

These Financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which require the Corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingencies. These estimates and assumptions are based on management's best knowledge of current events and actions that the Corporation may undertake in the future. Actual results could differ from those estimates.

Results of operations

The financial statements at July 31 include the final operating results for all pool accounts and programs for the crop year ended July 31, where marketing operations have been completed thereafter. In determining the financial results for such pools and programs, the accounts of the Corporation at July 31 include:

Revenue – Revenue from grain sales is recognized in the accounts at the time that shipment is made, at a value defined in the sales contract.

Inventory – Inventory of grain on hand at July 31 is valued at the amount of sales proceeds that is ultimately expected to be received as sale proceeds.

Direct operating expenses and income subsequent to July 31 – A provision is made for direct operating expenses and income occurring subsequent to July 31 relating to the marketing of grain inventories on hand at July 31. The amounts, which primarily relate to inventory storage, inventory financing and grain movement, are accrued to the appropriate operating statement account and are reflected in the Balance sheet as Accounts payable and accrued liabilities.

Allowances for losses on accounts receivable

Accounts receivable from credit programs – The Government of Canada guarantees the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sales Program (CGSP) and a declining percentage, based on the repayment term of the credit, of all receivables resulting from sales made under the Agri-food Credit Facility (ACF). The Corporation assumes the risk not covered by the Government of Canada. For receivables resulting from credit sales made outside of the CGSP and the ACF, the Corporation may enter into arrangements with commercial banks, which will assume the credit risk without recourse.

Accounts receivable from non-credit sales – Shipments are made pursuant to the receipt of appropriate letters of credit issued by commercial banks that guarantee the receipt of funds by the Corporation.

Accounts receivable from advance payment programs – The Government of Canada guarantees the repayment of the principal amount due from producers resulting from cash advances made under the *Agricultural Marketing Programs Act (AMPA)*, the Spring Credit Advance Program (SCAP), the Enhanced Spring Credit Advance Program (ESCAP), and the Unharvested Threshed Grain Advance Program.

With respect to receivables from credit programs, non-credit sales and advance payment programs, as a result of these guarantees and arrangements, no provision is made with respect to the possibility of debtors defaulting on their obligations. Other receivable accounts are monitored and allowance for losses is provided for where collection is deemed unlikely.

Capital assets and depreciation

Capital assets are recorded at cost and depreciated on a straight-line method over their expected useful life as follows:

Asset class	Term (years)
Computer equipment	1 to 6
Computer systems development	2 to 10
Automobiles	3
Building and office improvements	3
Office furniture and equipment	10
Hopper cars (post-August 2005)	15
Hopper cars (pre-August 2005)	30
Building	40
Leasehold improvements	Term of lease

Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance-sheet date. Exchange adjustments arising from the translation of foreign currency denominated assets or liabilities are recognized in the period in which they occur, as a component of revenue. Borrowings in currencies other than Canadian or U.S. dollars are hedged by cross-currency interest-rate swaps and currency swaps and are converted into Canadian or U.S. dollars at the rates provided therein. The Corporation hedges U.S. dollar assets and liabilities on a portfolio basis, primarily by matching U.S. dollar assets to U.S. dollar liabilities.

Sales contracts denominated in foreign currencies are hedged by foreign-exchange forward contracts. Forward-exchange contracts are translated into Canadian dollars at the rates provided therein. These amounts are recorded in revenue as an adjustment to the underlying sales transactions.

Other income and expenses are translated at the daily exchange rates in effect during the year.

The net foreign-exchange gains included in operations for the year ended July 31, 2006 are $26,423 (2005 – $4,151).

Derivative financial and commodity instruments

The Corporation uses various types of derivatives, such as swaps, forwards, futures and option contracts, in order to manage its exposure to currency, interest-rate and commodity price risks. These instruments are designated as hedges and are used for risk-management purposes. These derivative contracts are initiated within the guidelines of the Corporation's risk-management and hedging policies, which provide for limited discretionary trading within the policy's trading limits. The Corporation formally documents its risk-management objectives and strategies for undertaking the hedging transaction and the relationship between the hedged item and derivative. The Corporation assesses, both at inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Corporation recognizes derivative financial and commodity instruments as a hedge of the underlying exposure. Gains or losses on these contracts are recognized when the related underlying hedged transaction is recognized. Commodity contracts, while an economic hedge, do not qualify for hedge accounting. They are marked-to-market at the balance-sheet date, with the unrealized gains or losses disclosed as a component of Deferred and Prepaid expenses. When the gains or losses are realized, they are recorded in the same pool account or Producer Payment Options (PPO) program as the related sale or PPO program that is being hedged.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are recognized in the respective pool account or PPO program in the period in which the underlying hedged transaction is recognized. If the designated hedged item is no longer expected to occur prior to the termination of the related derivative instrument, realized and unrealized gains or losses are recognized in the pool account or PPO program in which the underlying hedged transaction was expected to be recognized.

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated.

Interest-rate contracts are used to manage interest-rate risk associated with the Corporation's funding and asset/liability management strategies. The amounts to be paid or received under single-currency and cross-currency interest-rate swap contracts are recognized in the period in which they occur, as a component of net interest earnings.

Foreign-exchange contracts are used to hedge currency exposure arising from grain sales, PPOs and funding operations. The amounts to be paid or received under forward and option contracts are recognized in the same pool account or PPO program in which the related foreign currency transaction occurs, as a component of revenue. The amounts to be paid or received from currency contracts used to hedge currency risk from funding operations are recognized in the period in which they occur, as a component of net interest earnings.

Commodity contracts are used to manage price risk arising from grain sales and PPOs. The amounts to be paid or received under futures and option contracts are recognized as a component of revenue, in the same pool account or PPO program as the related sale or PPO program that is being hedged.

Net interest earnings

Net interest earnings include interest revenue and expenses related to accounts receivable and borrowings, bank charges, transaction and program fees on borrowing facilities and interest earned on each pool account during the pool period and until final distribution of earnings to producers.

Employee future benefits

Employees of the Corporation are entitled to specified benefits provided upon retirement or termination.

Pension plan Effective July 1, 2003, the Corporation began administrating its own pension plan for its employees. Previously, employees participated in the *Public Service Superannuation Act* (*PSSA*) pension plan, administered by the Government of Canada. Currently, the Corporation has completed negotiations with the Government of Canada for the transfer of pension assets from the *PSSA* for employees who choose to transfer past service to the new plan. This transfer of assets from the *PSSA* will occur in the future. When the asset transfer amount is known, the value of these assets, related accrued benefit obligation and other disclosures will be presented as required by the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461, Employee Future Benefits.

The Corporation sponsors three defined-benefit pension plans and one defined-contribution plan. The defined-benefit components provide pensions based on years of service and average earnings prior to retirement. The defined-contribution component provides pensions based on contributions made and investment earnings. Employer contributions to the CWB Pension Plan are expensed during the year in which the services are rendered.

Other post-employment benefits – The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets, over the periods in which the employees render services in return for the benefits. The Corporation has adopted the following policies:

- The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health-care costs. Post-employment benefits include health care, life insurance, long-service allowance, unused sick leave accumulated prior to 1988 and unused vacation accumulated prior to 1996.
- The transitional obligation and actuarial gains (losses) are being amortized over the Average Remaining Service Period (ARSP), which has been actuarially determined to be 13 years (2005 – 12 years).
- Amortization of actuarial gains (losses) will be recognized in the period in which, as of the beginning of the period, the net actuarial gains (losses) are more than 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets.

Recent accounting pronouncements

The CICA issued Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3865, Hedges. Under the new standards, a new location for recognizing certain gains and losses – other comprehensive income – has been introduced, providing an ability for certain gains and losses arising from changes in fair value to be temporarily recorded outside the income statement, but in a transparent manner. All financial instruments, including derivatives, are to be included on a company's Balance sheet and measured in most cases at their fair values; and existing requirements for hedge accounting are extended. This guidance will apply to the Corporation's annual financial statements beginning with fiscal year of August 1, 2007. The Corporation is in the process of evaluating the impact of these recently-issued standards on its financial statements.

3. Accounts receivable from credit sales programs

	Credit Grain Sales Program	Agri-food Credit Facility	**2006 Total**	2005 Total
Due from foreign customers				
Current	$ –	$ 81,092	**$ 81,092**	$ 49,887
Rescheduled	2,643,547	–	**2,643,547**	3,853,730
	2,643,547	81,092	**2,724,639**	3,903,617
Due from Government of Canada	23,891	–	**23,891**	23,327
	$ 2,667,438	$ 81,092	**$ 2,748,530**	$ 3,926,944
Credit risk				
Guaranteed by Government of Canada	$ 2,667,438	$ 79,470	**$ 2,746,908**	$ 3,925,946
Assumed by CWB	–	1,622	**1,622**	998
	$ 2,667,438	$ 81,092	**$ 2,748,530**	$ 3,926,944

Accounts receivable balances are classified under the following applicable credit programs:

Credit Grain Sales Program

Accounts receivable under this program arise from sales to Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland and Russia. Of the $2,643,547 principal and accrued interest due from foreign customers at July 31, 2006, $1,839,794 represents the Canadian equivalent of $1,625,834, repayable in U.S. funds. Of the $3,853,730 principal and accrued interest due from customers at July 31, 2005, $2,801,215 represents the Canadian equivalent of $2,288,388, repayable in U.S. funds.

Peru prepaid $4,472 of its debt during August 2005, which represents the Canadian equivalent of $3,743 repayable in U.S. funds and was nearly 45 per cent of its debt outstanding. In addition, Brazil prepaid all its remaining outstanding debt of $30,021 in February 2006, including interest receivable, and Algeria prepaid all its total remaining outstanding debt of $98,773 in June 2006, including interest receivable, which represents the Canadian equivalent of $88,514 repayable in U.S. funds.

Subsequent to July 31, 2006, Russia prepaid all of its remaining debt. On August 21, 2006, $928,836 was received, which represents the Canadian equivalent of $826,882 repayable in U.S. funds.

Through a forum known as the Paris Club, the Government of Canada and other creditors have periodically agreed to extend repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country for a variety of reasons, including humanitarian concerns. All members of the Paris Club are obligated to grant the debtor country the same treatment. Under terms agreed to by the Government of Canada at the Paris Club, the Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru and Poland. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

Under the terms of the rescheduled agreement for Iraq, the Government of Canada paid $212,559 of Iraq's debt on its behalf in September 2005, which represents the Canadian equivalent of $179,800 repayable in U.S. funds. A further payment of $212,397 was received from the Government of Canada in December 2005, which represents the Canadian equivalent of $182,487 repayable in U.S. funds. Another payment of $132,749 is due on December 31, 2008, which represents the Canadian equivalent of $117,311 repayable in U.S. funds. In total, the Government of Canada will pay 80 per cent of the total debt rescheduled. The balance of the debt is due from Iraq.

In addition to debt rescheduling by means of extending repayment terms, the Government of Canada has agreed to reduce the debt owed to the Corporation by Poland. Under these debt reduction arrangements, amounts that otherwise would have been paid by the debtor government are paid to the Corporation by the Government of Canada. A total of $23,891 was due from the Government of Canada as at July 31, 2006 under these debt reduction agreements. Of this amount, $10,995 represents the Canadian equivalent of $9,716 that will be repayable in U.S. funds.

There is no allowance for credit losses, as the Government of Canada guarantees repayment of the principal and interest of all credit receivables under this program.

Agri-food Credit Facility

Accounts receivable under this facility arise from sales to customers in Brazil, Indonesia, Mexico and Peru. The July 31, 2006 balance of $81,092 (principal and accrued interest) due under the Agri-Food Credit Facility (ACF) represents the Canadian equivalent of $71,661 repayable in U.S. funds. The July 31, 2005 balance of $49,887 (principal and accrued interest) represents the Canadian equivalent of $40,754 repayable in U.S. funds.

There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. Management considers this balance collectable in its entirety; therefore, there is no allowance for credit losses.

Fair value

All accounts receivable resulting from sales made under credit programs as at July 31, 2006 have contractual interest-rate repricing dates under 365 days. As a result of the short terms to the repricing dates of these financial instruments, fair value approximates the carrying values.

Maturities

These accounts receivable mature as follows:

	2006	2005
Amounts due:		
Within 1 year	**$ 1,440,683**	$ 1,042,007
From 1 – 2 years	**430,248**	509,025
From 2 – 3 years	**653,314**	533,056
From 3 – 4 years	**7,377**	770,889
From 4 – 5 years	**12,709**	106,624
Over 5 years	**204,199**	965,343
Overdue	**–**	–
	$ 2,748,530	$ 3,926,944

4. Accounts receivable from advance payment programs

	Agricultural Marketing Programs Act	*Prairie Grain Advance Payments Act*	Spring Credit Advance Program	Enhanced Spring Credit Advance Program	Unharvested Grain Advance Program	**2006 Total**	2005 Total
Due from producers	$ 140,159	$ –	$ 3,317	$ 288,364	$ 2	**$ 431,842**	$ 317,539
Due from (to) Government of Canada	1,288	(1)	(115)	2,422	(7)	**3,587**	530
Due from (to) agents of the CWB	18,037	–	(203)	(5,194)	–	**12,640**	15,725
	$ 159,484	$ (1)	$ 2,999	$ 285,592	$ (5)	**$ 448,069**	$ 333,794

The Corporation administers the cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the Government of Canada. The Government guarantees the repayment of advances made to producers; therefore the Corporation is not exposed to credit risk. The Corporation recovers its costs of administering the programs from the Government and from producers using the program.

The Government of Canada introduced the *Agricultural Marketing Programs Act (AMPA)* in 1997 to provide producers with cash flow by advancing money for grain stored on the farm. This program replaced a previous Government of Canada program under the *Prairie Grain Advance Payments Act (PGAPA)*. The Government of Canada pays interest on advances of up to $50 and the producer pays interest on any amounts in excess of $50.

The Government of Canada introduced the Spring Credit Cash Advance Program (SCAP) in the spring of 2000 to assist producers with spring seeding costs. The program enables producers to receive up to $50 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*. This program was replaced by the Enhanced Spring Credit Cash Advance Program (ESCAP) introduced in June 2006. Any balances outstanding up to and including 2005-06 SCAP advances remain in SCAP.

The Government of Canada introduced the ESCAP in June 2006 to increase the assistance available to producers with spring seeding costs. The program enables producers to receive up to $100 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall under the AMPA. The ESCAP replaced the previous SCAP and any issued 2006-07 advances under SCAP were rolled into ESCAP.

The Government of Canada introduced the Unharvested Threshed Grain Advance Program in the 2002-03 crop year. The program provides cash flow to farmers who are unable to harvest their grain due to early snowfall. The program enables producers to receive up to $25 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to producers in the fall under the *AMPA*.

Cash advances issued during the year by the Corporation under these programs totalled $823,462, including $530,813 issued under the *AMPA* and $292,649 issued under the ESCAP and SCAP.

Collections from producers and grain companies subsequent to reimbursement by the Government of Canada, plus interest on default accounts collected from producers, are remitted to the Government of Canada as these amounts are received.

Due to the timing of producer deliveries and subsequent remittance by the agent to the Corporation, a component of advance receivables is due from agents.

5. Inventory of grain

Inventory of grain at July 31 is reported at values ultimately expected to be received as sale proceeds as follows:

	2006		2005	
	Tonnes	**Amount**	Tonnes	Amount
Wheat	2 414 178	**$ 502,605**	2 752 083	$ 492,078
Durum	1 180 223	**235,580**	1 315 303	261,581
Designated barley	165 414	**28,650**	231 103	44,654
Barley	112 428	**16,316**	208 805	28,840
	3 872 243	**$ 783,151**	4 507 294	$ 827,153

6. Deferred and prepaid expenses

	2006	2005
Net results of hedging activities applicable to subsequent pool accounts	**$ 18,606**	$ 1,504
Prepaid cost of moving inventory to eastern export position	**25,557**	16,344
Deposits on commodity margin accounts	**51,822**	15,854
Purchase and lease-renewal options on leased hopper cars	**–**	3,369
Deferred pension asset	**9,122**	1,671
Other	**2,494**	1,445
	$ 107,601	$ 40,187

7. Capital assets

		2006			2005	
	Cost	**Accum. deprec.**	**Net book value**	Cost	Accum. deprec.	Net book value
Computer systems development	**$ 74,353**	**$ 46,281**	**$ 28,072**	$ 68,137	$ 39,659	$ 28,478
Hopper cars	**106,544**	**72,110**	**34,434**	82,768	70,353	12,415
Computer equipment	**18,643**	**14,162**	**4,481**	17,592	13,642	3,950
Furniture and equipment	**5,457**	**4,180**	**1,277**	5,312	3,986	1,326
Land, building and improvements	**10,815**	**7,945**	**2,870**	8,987	7,844	1,143
Automobiles	**748**	**183**	**565**	561	214	347
Leasehold improvements	**158**	**158**	**–**	158	158	–
	$ 216,718	**$ 145,019**	**$ 71,699**	$ 183,515	$ 135,856	$ 47,659

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 217 cars have been wrecked and dismantled, leaving 1,783 in the fleet. The Corporation purchased an additional 1,663 cars, previously under lease, in 2005-06 at a cost of $25,828. Of these, one car has been wrecked and dismantled, leaving 1,662 in the fleet. The Corporation is reimbursed for destroyed cars under operating agreements with the Canadian National Railway and the Canadian Pacific Railway.

8. Borrowings

The Corporation issues debt in world capital markets. The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are unconditionally and irrevocably guaranteed by the Minister of Finance on behalf of Her Majesty in right of Canada through an explicit guarantee included in *The Canadian Wheat Board Act.*

Short-term borrowings consist of commercial paper issued by the Corporation in the Canadian, U.S. and Euro markets, bank loans and medium-term notes with remaining maturities of less than one year. The Corporation uses swaps in the same notional amounts and with the same terms as the underlying borrowings to convert the currency exposure to either the Canadian dollar or the U.S. dollar.

Long-term borrowings are notes issued in the Domestic and Euro Medium-term Note market with an original term to maturity between one and 15 years. The majority of the Corporation's long-term notes are structured securities where interest is calculated based on certain index, formula or market references and are redeemable by the Corporation before maturity, due to embedded call features. The Corporation uses swap contracts to mitigate currency risk and manage interest-rate risk associated with long-term borrowings. These contracts ultimately create a floating rate obligation similar to that of the Corporation's short-term borrowings and ensure that the Corporation will receive proceeds from the swap to offset currency and interest-rate fluctuations on the notes' principal and interest payments.

	Effective interest rate (%)	2006	2005
Short-term borrowings	3.84 – 5.55	$ **2,686,161**	$ 3,320,681
Long-term borrowings	4.43 – 5.32	**1,582,061**	1,662,298
Accrued interest	–	**37,818**	27,068
Total borrowings	3.84 – 5.55	**4,306,040**	5,010,047
Less temporary investments	4.25 – 5.29	**(973,723)**	(859,519)
Net borrowings	3.84 – 5.55	$ **3,332,317**	$ 4,150,528

Of the net borrowings at July 31, 2006, $1,972,648 represents the Canadian equivalent of $1,743,238 that will be repayable in U.S. funds. Of the net borrowings at July 31, 2005, $2,864,270 represents the Canadian equivalent of $2,340,006, repayable in U.S. funds.

These borrowings mature as follows:

	2006	2005
Amounts due:		
within 1 year	$ **2,723,979**	$ 3,347,748
from 1 – 2 years	**39,606**	30,603
from 2 – 3 years	**22,632**	42,844
from 3 – 4 years	**173,861**	24,482
from 4 – 5 years	**124,476**	212,759
over 5 years	**1,221,486**	1,351,611
	$ **4,306,040**	$ 5,010,047

After giving effect to interest-rate swaps, all borrowings have contractual interest-rate repricing dates of 365 days or less and, as a result, the carrying values of these borrowings approximate their fair values.

9. Accounts payable and accrued expenses

	2006	2005
Accounts payable and accrued liabilities	$ **131,541**	$ 148,789
Deferred sales revenue	**15,122**	7,602
	$ **146,663**	$ 156,391

10. Liability to agents

		2006		2005
Grain purchased from producers	$	**347,293**	$	452,309
Deferred cash tickets		**34,128**		56,286
	$	**381,421**	$	508,595

Grain purchased from producers

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to the Corporation by the agents at terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for grain on hand at country elevator points and in transit at July 31, for which delivery to and settlement by the Corporation is to be completed subsequent to the year-end date.

Deferred cash tickets

Grain companies, acting in the capacity of agents of the Corporation, deposit in trust with the Corporation an amount equal to the value of deferred cash tickets issued to producers for Corporation grain. The Corporation returns these funds to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

11. Liability to producers – undistributed earnings

Undistributed earnings represent the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. Of the undistributed earnings, totalling $324,636 (2005 – $386,651), $75,953 (2005 – n.a.) was distributed to producers as an adjustment payment on August 9, 2006 and $138,350 (2005 – $183,706) will be distributed to producers in an interim payment pending Government approval. The balance of $110,333 (2005 – $202,944) will be distributed to producers through final payments.

12. Provision for producer payment expenses

The amount of $2,266 (2005 – $1,741) represents the balance of the reserve for producer payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor-in-Council.

13. Special Account – net balance of undistributed payment accounts

In accordance with the provision of Section 39 of *The Canadian Wheat Board Act*, the Governor-in-Council may authorize the Corporation to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor-in-Council, upon the recommendation of the Corporation, may deem to be for the benefit of producers.

The activity in the Special Account is comprised of:

		2006		2005
Beginning of year	$	**3,880**	$	4,060
Transfer from payment accounts		**–**		657
Expenditures		**(1,090)**		(822)
Payments to producers against old payment accounts		**(2)**		(15)
End of year	$	**2,788**	$	3,880
Ending balance comprised of:				
Unexpended authorizations	$	**488**	$	714
Not designated for expenditure		**2,300**		3,166
	$	**2,788**	$	3,880

During the 2005-06 crop year, a request for an Order-in-Council (OIC) was submitted to transfer balances from wheat, durum and designated barley. As of July 31, 2006, this OIC had not yet been approved but was approved on November 2, 2006.

Program activity during the 2005-06 crop year is detailed as follows:

	Unexpended at beginning of year	Authorized	Expended	Unexpended at end of year
Market development program	$ 321	$ –	$ (159)	$ 162
Canadian International Grains Institute				
Capital expenditures	207	–	(117)	90
University of Alberta				
Agri-Food Discovery Place	–	500	(400)	100
Scholarship program	36	364	(388)	12
Variety Identification Project (VIP)	150	–	(26)	124
	$ 714	$ 864	$ (1,090)	$ 488

14. Contingency fund

The Canadian Wheat Board Act provides for the establishment of a contingency fund. The Contingency fund can be populated through a variety of mechanisms, including the results of operations of the PPO program, or other sources of revenue received in the course of operations. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $50 million. During the 2005-06 crop year, the Minister approved an increase in the limit to $60 million through an OIC. The components of the Contingency fund are described below:

Producer Payment Options program

The Corporation has implemented payment alternatives for producers. The Fixed Price Contract (FPC) and Basis Price Contract (BPC) provides producers with the opportunity to lock in a fixed price or basis for all or a portion of their grain by October 31, three months after the beginning of the crop year. Full payment for the grain is received immediately after it has been both delivered and priced, and the producer is not eligible for other payments from the pool account. In 2005-06, a Daily Price Contract (DPC) was introduced for wheat. It operates similar to an FPC contract, however, the sign-up period ends July 31, and the pricing point is U.S. elevator spot prices.

The Early Payment Option (EPO) provides producers with a greater portion of their expected final pool price at time of delivery, while still allowing them to remain eligible to participate in price gains if pool returns exceed EPO values.

The Pre-delivery Top-up (PDT) provides producers who have taken a fall cash advance to apply for an additional per-tonne payment for their grain prior to delivery. Repayment is received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. Producers who participate in the PDT are charged an administration fee, with any surpluses credited to the Contingency fund. In 2005-06, the PDT program included discounts totalling $172 and financing costs of $136.

The surplus or deficit arising from the operation of these programs is transferred to the Contingency fund, so that net operating results will not affect the pool accounts.

Other

As provided for under *The Canadian Wheat Board Act*, excess interest earnings from the barley pool have been transferred to the Contingency fund. The transfer amount is based on a specific formula approved by the board of directors. The formula ensures that a fair amount of interest earnings, on a per-tonne basis, is allocated to the barley pool and the distorting effect of certain costs in years when pool volume is unusually low is mitigated. Consistent with the treatment applied to the pools and PPO program, the surplus is not specifically funded and earns interest at the Corporation's weighted-average cost of borrowing.

The Contingency fund balance at July 31, 2006 is detailed as follows:

	Producer Payment Options program							
	Wheat	Durum	Des. barley	Barley	PDT	Other	**2006 Total**	2005 Total
Opening surplus, beginning of year	$ 30,738	$ 404	$ 557	$ 1,698	$ 4	$ 15,211	**$ 48,612**	$ 18,453
Transferred from pool accounts	–	–	–	–	–	789	**789**	2,278
Surplus (deficit) from PPO program	(6,958)	116	140	(24)	36	–	**(6,690)**	27,566
Interest earned	1,010	13	18	60	–	500	**1,601**	315
Closing surplus, end of year	$ 24,790	$ 533	$ 715	$ 1,734	$ 40	$ 16,500	**$ 44,312**	$ 48,612

15. Inventory adjustments

Inventory adjustments capture the related dollar impact, at the current initial price, of changes in grade and protein of the grain delivered by producers from the grain that is ultimately available for sale.

Overall promotion in the grain handling system is disclosed as an expense to the pool, because the Corporation compensates grain companies for the increase in current initial-price value created by positive blending activities. Generally, there is an overall benefit to the pool to the extent that the greater sales value returned to the pool from selling higher quality grain exceeds the increase in the initial value.

In the case of demotions, the opposite is true. The pools' overall sales value will be lower from having lower quality grain to sell, compared to that which was reported and upon which the Corporation must still make future adjustment, interim and final payments. This loss is partially mitigated because the grain companies are only reimbursed the value of the lower quality grain, whereas they have paid the farmer the higher initial price of the higher quality grain originally reported as delivered.

16. Other grain purchases

Other grain purchases are primarily made up of late receipts, inventory overages and inventory shortages. Late receipts arise from producers' deliveries subsequent to the previous pool period close. Overages and shortages occur when the Corporation's agents' inventory records differ from those of the Corporation. Acquired overages and late receipts are recorded as an expense to the pool, with the pool benefiting to the extent that the ultimate sales proceeds of this grain exceed its cost. Shortages must be settled by the Corporation's agents at export price so that the pool is not negatively impacted by the disappearance of recorded stocks.

17. Other direct expenses

Other direct expenses is primarily made up of program expenses, agents' commissions, fees for inspection and testing of grain, Corporation-owned and leased hopper cars and demurrage.

18. Other income

Other income is primarily made up of the Freight-Adjustment Factor recovery and recovery of charges, deducted by the Corporation's agents at time of producer delivery, which were subsequently not incurred by the agent. The most significant charge recovered is the recovery of the rail-freight cash ticket deduction when grain moves to a location other than terminal position.

As discussed in Note 14, the Minister increased the Contingency fund limit to $60 million through an OIC approval. With the increased limit, no portion of excess PPO program surpluses was distributed to participants of the pool accounts. In 2004-05, $7,500 was included in Other income.

19. Administrative expenses

	2006	2005
Allocated as follows:		
Wheat pool	**$ 44,625**	$ 47,508
Durum pool	**16,062**	13,663
Designated barley pool	**5,460**	6,262
Barley pool A	**3,222**	104
Barley pool B	**475**	1,675
Total to pools	**69,844**	69,212
PPO programs	**1,717**	299
Producer payment accounts	**367**	479
Administrative expenses	**$ 71,928**	$ 69,990

Administrative expenses, less the expenses attributable to the distribution of final payments and the costs related to the PPO program, are allocated to each pool on the basis of relative tonnage. A change was made to the method used to allocate costs to the PPO to more accurately reflect the costs incurred to run the programs.

20. Commitments

Hopper car leases

The Corporation administered leases for grain hopper cars for the Government of Canada with lease terms of 25 years, which expired in 2006. Of the 1,750 cars leased under the original agreements, 87 have been wrecked and dismantled, leaving 1,663 cars in this fleet. All lease costs to the end of the original lease periods are recoverable from the Government of Canada and not charged to the pool accounts. Total payments associated with these leases for the year ended July 31, 2006 were $8,464 (2005 – $13,518).

Upon expiration of these leases in 2006, the Corporation purchased the fleet of 1,663 hopper cars at a cost of $22,516, which represents the Canadian equivalent of $17,314 in U.S. funds. Purchase dates were between December 30, 2005 and July 2, 2006.

Between 1991 and 1995, the Corporation purchased options to acquire 1,550 of the original 1,750 leased hopper cars. The options, at a cost of $3,312, which were recorded in Deferred and prepaid expenses, are now capitalized as part of the 1,663 hopper car acquisition cost.

Operating leases

The Corporation has entered into operating leases for premises and office equipment. Lease terms are for periods ranging from one to six years, expiring between April 2007 and March 2012. The Corporation has the option to renew most of these leases for additional terms ranging from one to three years. Total lease payments for premises and office equipment expensed in the year ended July 31, 2006 were $667 (2005 – $747).

Lease costs on premises and office equipment are charged to Administrative expenses. Commitments under operating leases are as follows:

	Premises and office equipment (Cdn$)
2007	475
2008	154
2009	76
2010	50
After 2010	14

Capital leases

The Corporation has transitioned its vehicles from company-owned to capital-lease arrangements. The first set of vehicles was transitioned August 1, 2005, with the last vehicle being transitioned by June 2007. These capital leases are accounted for in 2005-06 as an acquisition of an asset (net of accumulated amortization) and an assumption of an obligation. The vehicles under the capital lease will be amortized on a straight-line basis over their economic lives. Estimated future payments on vehicles leased to March 21, 2009 are:

	Vehicles (Cdn$)
2006-07	145
2007-08	74
2008-09	11

Other

The Corporation has agreed to fund the operations of the Canadian International Grains Institute (CIGI) for a base amount of $1,985 annually, through to 2008.

21. Derivative financial and commodity instruments

The Corporation enters into single and cross-currency interest-rate swap contracts to manage its funding costs and to implement asset/liability management strategies designed to reduce exposure resulting from currency and interest-rate fluctuations.

The Corporation also enters into foreign-exchange forward and currency-swap agreements with financial institutions to hedge currency exposure arising primarily from grain sales and funding operations.

These financial instruments qualify for hedge accounting and are not recognized in the Balance sheet. As at July 31, 2006 the total notional amount of these financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2006			2005		
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest-rate contracts						
Single-currency interest-rate swaps	**$ 929,168**	**$ (8,193)**	**$ 10,032**	$ 645,779	$ 2,718	$ 9,815
Cross-currency interest-rate swaps	**698,158**	**(71,974)**	**31,361**	1,075,779	(13,698)	32,757
	1,627,326	**(80,167)**	**41,393**	1,721,558	(10,980)	42,572
Foreign-exchange contracts						
Forwards	**1,604,746**	**(4,893)**	**14,609**	1,046,171	9,106	14,091
Currency swaps	**178,938**	**1,359**	**1,359**	157,014	(502)	1,756
	1,783,684	**(3,534)**	**15,968**	1,203,185	8,604	15,847
	$ 3,411,010	**$ (83,701)**	**$ 57,361**	$ 2,924,743	$ (2,376)	$ 58,419

As of the statement date, all foreign-exchange contracts mature within one year. The interest-rate contracts with maturities between less than one year, one and five years and beyond five years had notional amounts outstanding of $45,264, $360,575 and $1,221,487 respectively. The swap contracts rates ranged between 3.84 per cent and 5.55 per cent.

The net fair value of interest rate and foreign-exchange contracts refers to the estimated net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies including net present value analysis and quoted market prices, where available. These estimates of fair value are affected by the assumptions used and, as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The Corporation is only exposed to credit risk on contracts with a positive fair value. The credit-risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the financial risk-management policies approved by the Corporation's board of directors. Master-netting agreements are used to reduce credit risk from potential counterparty default. The largest notional amount contracted with any institution as at July 31, 2006 was $1,006,220 (2005 – $938,262) and the largest credit risk with any institution as at July 31, 2006 was $16,415 (2005 – $14,921).

The Corporation also enters into commodity contracts, including futures and options, for wheat and barley in the exchange markets, as a normal course of business. The contracts outstanding at July 31 are carried in the financial statements at fair value.

22. Employee future benefits

Employee future benefits relate to the Corporation's pension plans and the other post-employment benefits.

Total cash payments

Total cash payments for Employee future benefits, consisting of cash contributed by the Corporation to its defined-benefit and defined-contribution plans, plus cash payments made directly to employee and beneficiaries and third-party service providers for the benefit plans, were $6,378 (2005 – $4,388).

Pension plans

The Corporation's pension expense for the year ended July 31, 2006 was $5,116 (2005 – $2,968).

An actuarial valuation of the Corporation's pension plan is required annually for the first three years of existence. The most recent actuarial valuation was completed as of July 31, 2005. The Corporation is not able to disclose the full pension obligation or plan assets for the year ended July 31, 2006 as required by GAAP, because the actuarial valuation is not complete, pending completion of the pension-transfer asset value. The Corporation's employees have finalized their transfer decisions and documentation is currently in progress to facilitate the final transfer.

Defined-benefit pension plan assets:

These tables include the defined-benefit components of the Corporation's pension plans, but exclude the pension-transfer value from the *PSSA* plan and the actuarially determined 2004-05 solvency deficit of $7,452, which was paid as at September 15, 2006.

Change in fair value

		2006		2005
Balance, beginning of year	$	9,700	$	5,314
Actual return on plan assets		695		802
Employer contributions		5,065		5,065
Employee contributions		1,027		1,110
Benefits and expenses		(1,820)		(2,591)
Balance, end of year	$	14,667	$	9,700

The percentages of plan assets, based on market values at July 31, are:

Asset category	2006	2005
Equity securities	58%	59%
Debt securities	36%	32%
Other	6%	9%
Total	100%	100%

Defined-contribution plan

The Corporation expensed $50 (2005 – $38) to the defined-contribution component of the Corporation's pension plan. Employees contributed $230 (2005 – $186) to the defined-contribution component of the Corporation's pension plan as at July 31, 2006. Benefits paid from the defined-contribution component were $60 (2005 – $17).

Other post-employment benefits

The Corporation measures its accrued benefit obligations for accounting purposes as at July 31, 2006. The most recent actuarial valuation was completed as of July 31, 2006 with the next required valuation as of July 31, 2009.

The Corporation amended its other post-employment benefits effective August 1, 2006. The impact of this amendment was a plan-design gain that has been recognized in the July 31, 2006 actuarial valuation.

The following tables present information related to post-employment benefit plans provided by the Corporation, including amounts recorded on the Balance sheet and the components of the cost of net benefits for the period.

Reconciliation of accrued benefit obligation:

		2006		2005
Accrued benefit obligation, beginning of year	$	31,487	$	26,858
Employee contributions		–		–
Benefits paid		(1,262)		(1,420)
Current service cost		529		904
Interest cost		1,422		1,655
Curtailment*		–		682
Curtailment recognized		–		(682)
Curtailment gain		–		(583)
Plan design (reduction) improvement**		(4,285)		–
Actuarial (gain) loss		(2,961)		4,073
Accrued benefit obligation, end of year	$	24,930	$	31,487

** In 2005-06, the accrued benefit obligation was reduced by $4,285 as a result of a gain from a plan design change. The gain will be amortized over 10 years and netted against the transitional obligation as required by GAAP.

Reconciliation of the accrued obligation and plan deficit to accrued liability:

	2006	2005
Fair value of plan assets	$ –	$ –
Accrued benefit obligation	24,930	31,487
Funded status – plan deficit	(24,930)	(31,487)
Unamortized net actuarial loss	7,020	10,586
Unamortized transitional obligation	2,876	7,481
Accrued benefit liability, end of year	$ (15,034)	$ (13,420)

The accrued benefit liability included on the Corporation's Balance sheet is:

	2006	2005
Accrued benefit liability, beginning of year	$ (13,420)	$ (10,445)
Current service cost	(529)	(904)
Interest cost	(1,422)	(1,655)
Benefits paid	1,262	1,420
Amortization of transitional obligation	(320)	(748)
Amortization of net actuarial loss	(605)	(406)
Curtailment*	–	(682)
Accrued benefit liability, end of year	$ (15,034)	$ (13,420)

* During 2004-05, staff reductions resulted in curtailment, which has been fully expensed by the Corporation.

The Corporation's expense elements with respect to other post-employment benefits are:

	2006	2005
Current service cost	$ 529	$ 904
Interest cost	1,422	1,655
Amortization of transitional obligation	320	748
Amortization of actuarial loss	605	406
Curtailment	–	682
Actuarial loss	7,020	10,586
Net cost (before adjustments)	9,896	14,981
Adjustments – actuarial loss	(7,020)	(10,586)
Total expense included in Administrative expenses	$ 2,876	$ 4,395

The weighted-average assumptions at the measurement date used in the calculation of the Corporation's benefit obligation are shown in the following table:

	2006	2005
Discount rate	5.50%	5.25%
Rate of compensation increase	3.00%	4.00%
Medical cost trend rate	10.00%	10.00%
Medical cost trend rate declines to	5.00%	5.00%
Medical cost trend rate declines over	5 years	5 years
Dental cost trend rate	3.00%	3.00%

Sensitivity analysis:

Assumed medical/dental cost trend rates have a significant effect on the amounts reported. A one percentage-point change in assumed rates would have the following effects for 2006:

		Increase	Decrease
Accrued benefit obligation	$	2,619	($ 2,110)
Current service and interest cost	$	226	($ 178)

23. Contingent liability

On September 13, 2002 the North Dakota Wheat Commission (NDWC) and the U.S. Durum Growers Association filed anti-dumping (AD) and countervailing duty (CVD) petitions against imports of Canadian hard red spring wheat (HRS) and durum. On October 3, 2003, the U.S. International Trade Commission (ITC) dismissed the durum petition by a 4-0 vote. However, with respect to HRS, the ITC ruled 2-2 that Canadian HRS imports caused injury to U.S. HRS producers. As a result, AD and CVD tariffs totalling 14.15 per cent ad valorem were in place pending the completion of certain appeals launched by the CWB. The appeals, taken under the North American Free Trade Agreement (NAFTA) with subsequent remands to the appropriate U.S. administrative agency, were ultimately successful. The CVD tariff was reduced from 5.29 per cent to 2.54 per cent. Most significantly, however, on October 5, 2005 the ITC voted 4-1 that Canadian HRS imports did not injure U.S. producers. On October 12, 2005 the NDWC filed a challenge of the ITC's ruling with the NAFTA Secretariat. On December 12, 2005 the NAFTA panel ruled that Canadian HRS would no longer be subject to U.S. import duties effective January 2, 2006.

24. Comparative figures

Certain of the prior year's figures have been restated to conform to the current year's presentation and to reflect a consistent application of expenses for all grains. Specifically, 2004-05 producer contract storage payments of $9,608 were reclassified from the Statement of distribution to inventory storage expense on the Statement of operations. As well, the prior year rebate on producer cars of $102 was reclassified from the Statement of distribution to Other direct expenses on the Statement of operations, and from Undistributed earnings to Accounts payable and accrued expenses on the Balance sheet.

GLOSSARY OF FINANCIAL TERMS

Cross-currency interest-rate swap – a contractual agreement for specified parties to exchange principal, fixed and floating interest-rate payments in different currencies. Notional amounts upon which the interest-rate payments are based are not exchanged.

Currency swap – a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.

Derivative financial instrument – a contract or security that obtains much of its value from price movements in a related or underlying security, future or other instrument or index.

Fair value – an estimate of the amount of consideration that would be agreed upon between two arm's-length parties to buy or sell a financial instrument at a point in time.

Foreign exchange forward an agreement to buy and sell currency simultaneously purchased in the spot market and sold in the forward market, or vice versa.

Futures contract or futures – a future commitment to purchase or deliver a commodity or financial instrument on a specified future date at a specified price. The futures contract is an obligation between the Corporation and the organized exchange upon which the contract is traded.

Hedge – a risk-management technique used to decrease the risk of adverse commodity price, interest-rate or foreign-exchange movements by establishing offsetting or risk-mitigating positions intended to reduce or minimize the Corporation's exposure.

Liquidity – having sufficient funds available to meet corporate obligations in a timely manner.

Notional amounts – a reference amount upon which payments for derivative financial instruments are based.

Option - a contract that grants the right, but not the obligation, to buy or sell a commodity or financial instrument at a specified price at a specified point in time during a specified period.

Risk management – the application of financial analysis and diverse financial instruments to the control and, typically, the reduction of selected types of risk.

Single-currency interest-rate swap – a contractual agreement for specified parties to exchange fixed interest-rate payments for floating interest rate payments based on a notional value in a single currency. Notional amounts upon which the interest-rate payments are based are not exchanged.

Swap a contractual agreement to exchange a stream of periodic payments with a counterparty.

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CWB

FARMERS FIRST


Annual Report
the cwb is farmers
CWB

Canadian farmers innovatively leading the way in the global grain market.

Creating a sustainable competitive advantage for farmers and customers through our unique business structure, innovative marketing, superior service, profitable investments and effective partnerships.

Contents

The CWB markets western Canadian wheat, durum wheat and barley in Canada and throughout the world.

All sales revenue, less marketing costs, is returned to farmers. The CWB is controlled by a board of directors comprising 10 farmer-elected members and five federal government appointees. As a key international grain trader and major earner of foreign exchange, the CWB and Prairie wheat and barley producers compete successfully with other major players in the grain industry.

Financial highlights

	2006-07	2005-06	2004-05	2003-04	2002-03
Combined pool operating results ($ millions)					
Revenue	**$ 4,948.6**	$ 3,498.3	$ 3,739.3	$ 4,136.2	$ 3,339.9
Direct costs	**600.2**	458.3	417.2	369.7	318.7
Net revenue from operations	**4,348.4**	3,040.0	3,322.1	3,766.5	3,021.2
Other income	**218.0**	149.3	163.4	161.1	132.7
Net interest earnings	**30.6**	36.1	53.4	56.1	54.8
Administrative expenses	**(67.6)**	(69.8)	(69.2)	(67.6)	(54.1)
Grain industry organizations	**(2.0)**	(2.1)	(1.6)	(1.8)	(1.8)
Earnings for distribution	**$ 4,527.4**	**$ 3,153.5**	**$ 3,468.1**	**$ 3,914.3**	**$ 3,152.8**
Receipts from producers (000s tonnes)					
Wheat	**15 516.6**	11 971.2	13 296.3	12 376.0	8 696.0
Durum	**3 982.7**	4 308.9	3 824.0	3 079.7	3 804.0
Designated barley	**1 851.3**	1 464.7	1 752.5	2 138.4	891.0
Feed barley (pool A)	**147.5**	915.8	29.0	–	–
Feed barley (pool B)	**19.8**	127.5	468.7	–	–
Barley	**–**	–	–	844.0	40.0
Total	**21 517.9**	**18 788.1**	**19 370.5**	**18 438.0**	**13 431.0**

A message from the chair of the board of directors

November 2007

There's no better way to orient yourself to a challenge than to take stock of who you are and what you stand for. The 2006-07 crop year has been challenging in many ways. Throughout, the directors and staff of the CWB have continued to be guided by the principle that we are farmers' marketing agency and that farmers come first.

We came into being more than 70 years ago through the efforts of farmers. Almost all of my colleagues on the board of directors are farmers. Two-thirds of them, like me, were democratically elected by farmers.* We exist to ensure that it is farmers who profit from the sale of their grain. We sell on behalf of farmers and no one else; minus the cost of operations, every dollar that we earn is returned to farmers. We offer a growing array of programs to meet the needs of a wide variety of farm operations. We advocate on behalf of farmers on issues that concern their livelihood. In fact, as you'll read in the pages ahead, many of the CWB employees who carry out their work on behalf of farmers grew up in farm families. Every day, they come to work with values and knowledge shaped by the family farm.

In short, farmers are the whole point.

Like most years, this one had its ups and downs. However, it is our focus on farmers that has guided all of our decisions.

Farmers have clearly appreciated the pricing flexibility the CWB has developed over the past few years in order to meet the needs of diverse farming operations. This year saw a record response to the Producer Payment Options. Sign-up for both the Daily Price Contract and Fixed Price Contract was up significantly from the previous year in terms of both tonnage and number of producers. This is only a small part of the story.

- In 2006-07, we introduced two new policies to promote value-added processing on the Prairies. Under the New Generation Cooperative program, participating farmers may directly receive what the mill pays the CWB for their wheat or barley. Under the Field to Plate program, those involved in niche-market processing ventures can source grain directly from farmers.
- We expanded the Pre-Delivery Top-up program to include durum as well as wheat. This program gives farmers access to a greater share of the value of their crop early in the fall – before they deliver their grain and when the bills are due.
- We proposed that the CWB take over from the federal government the responsibility for adjustment, interim and final payments to farmers – another initiative to ensure that farmers are paid for their grain as soon as possible.
- We expanded the Delivery Exchange Contract so that all Prairie farmers are able to trade delivery periods among themselves to suit their business needs. Under the program, farmers know earlier what their acceptance levels and delivery periods will be.
- We introduced the Wheat Storage Program that pays farmers who store high-quality wheat on their farms. By offering farmers a contract premium and storage payment for on-farm storage of high-protein No. 1 Canada Western Red Spring (CWRS) wheat, the CWB is assured a consistent stock of high-quality product to satisfy the needs of premium customers.
- We continued to promote western Canadian wheat, durum and barley through an ongoing program of branding and market development. Around the world, for instance, a growing array of products made with 100-per-cent Prairie-grown wheat now carry CWB logos proclaiming in one of several languages "Canadian Wheat Makes It Good" or "Made from Canadian Wheat for Top Quality."
- We intervened in a major level-of-service complaint against CN Rail. The complaint, lodged by Great Northern Grain (GNG) of northern Alberta and supported by a variety of interveners, had vital implications for the CWB's ability to market farmers' grain in an orderly fashion and at a reasonable cost. The Canadian Transportation Agency ruled in favour of GNG in July 2007.

- We applauded the federal government's bilateral trade initiatives with Peru and Colombia, two significant customer countries for Prairie wheat. Bilateral trade agreements are increasingly important for western Canadian grain farmers, especially as the U.S. is pursuing these agreements aggressively with several key customer countries.
- We began a multi-year overhaul of operational processes to drive efficiencies as well as increased e-business opportunities for farmers. The streamlining of processes in every link of the grain-marketing chain will leave the CWB well positioned to capitalize on opportunities to offer farmers new and improved services.
- We launched a new Web site, on-line permit sign-up, and expanded e-Services designed to meet the needs of a burgeoning number of farmers who conduct their business over the Internet.
- Last but definitely not least, we successfully marketed one of the highest-quality crops of wheat, durum and barley that Prairie farmers have ever produced. Durum exports for 2006-07, with all farmers' durum accepted, were a record-setting 4.4 million tonnes.

All of these accomplishments, and others, were achieved by putting farmers first. We also put farmers first when we interacted with the federal government over aspects of the CWB's mandate and operations. We believed – and still believe – that it's important to defend the principle that it is farmers who control the CWB and its future. This, then, is what guided us when:

- early in the crop year, a government-established task force recommended ways to eliminate Prairie farmers' single-desk marketing system. We voiced our position that western Canadian farmers must be the ones to decide if the single desk should be retained.
- we challenged, before the Federal Court, a government directive preventing communication about the value of the single desk.
- we chose not to support the government's decision to terminate the president and CEO – selected by the board of directors and unanimously recommended for reappointment – or its decision to appoint an interim president and CEO without prior consultation with the CWB's board of directors.
- in response to the government's welcome announcement of a producer plebiscite on barley marketing, we called for a clear question that would produce an unambiguous result.
- we responded with a successful legal challenge to the government's attempt to dismantle farmers' single desk for barley as of August 1, 2007 by way of a Cabinet order

The new crop year will contain its own challenges, both those we set for ourselves and those that come from the environment in which we operate. We'll face them with innovation and purpose – as we did at the end of the crop year when the Federal Court ruled in favour of our legal challenge over barley. We responded without complacency but with a commitment to improve and expand the price, payment and delivery options available to wheat, durum and barley farmers on the Prairies.

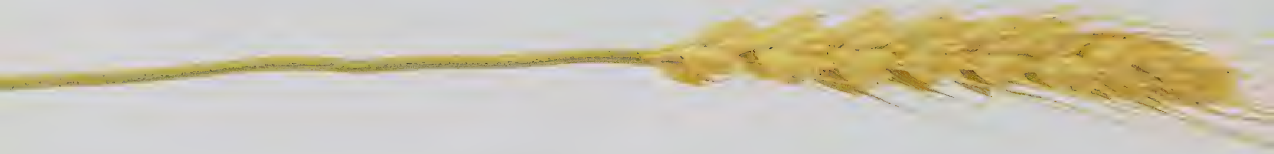
As I write this message, work is well underway on these new options and I anticipate they'll be an important theme in our annual report for 2007-08. The themes that run through the document you now hold in your hands reflect a profound commitment to western Canadian farmers As we move forward, we'll continue to be guided by who we are and what we stand for.

Ken Ritter

Ken Ritter
Chair, board of directors

* Western Canadian farmers exercise democratic control of the CWB by electing 10 of the 15 members of its board of directors Elections, scheduled every two years, were held in December 2006 for five board positions. See page 20

FARMERS



FIRST

As CWB employees, we take a lot of pride in knowing that we work for the farmers of Western Canada.

It's what makes us strong and motivates us as we develop new and better ways to serve farmers and customers. It's the common thread that runs through our varied workforce, the sense of responsibility that holds together our diverse skills and expertise.

But more than this, many of us literally are *Farmers First*. More than one-third of the CWB's workforce are members of farm families. Our knowledge and values were shaped by what we learned on the family farm, and we bring these to work.

In the following pages you'll meet four CWB employees who are farmers first, who know first hand the hard work and rewards of earning a living from the land, and whose perspectives are so important to the life and work of the CWB.

PROFILE

Bruce Burnett

As a teenager, Bruce Burnett remembers thinking it was "kind of weird" when his uncle used part of his holiday to help with harvest on the family farm. Now, he says, it makes perfect sense.

Almost every year since he began working at the CWB in 1988, Bruce has headed out to the family farm in western Manitoba – now his brother's farm – to help with harvest. This year, he put in eight full days and two weather-shortened days combining 850 acres of CWRS wheat.

"If you're a farm kid, harvest is an exciting time," says Bruce, director of weather and market analysis. "You miss that. There's lots of pressure to it too, but for me it's a good break and a kind of reminder of why I do what I do."

The Burnett farm occupies 1,700 acres of rolling Newdale clay loam, just north of Binscarth, a town of 400 near the Manitoba-Saskatchewan border. Two-thirds of the farm is sown to wheat and the rest to canola. "Reasonably well drained, some rocks – it's pothole country, that's what it is," says Bruce, adding that his grandfather purchased the land in the 1930s, moving north from the Melita area.

"There were too many grasshoppers and too much drought farther south. So he moved northward to the area where my grandmother's family had settled."

"LET'S JUST SAY I'D RATHER WORK IN THE SECTOR OF THE INDUSTRY WHERE YOU'RE REPRESENTING FARMERS RATHER THAN TRYING TO MAKE A PROFIT OFF THEM."

In time, Bruce's father took over from his grandfather, and Bruce's younger brother Ken took over from their dad. Bruce, meanwhile, had completed a Bachelor of Science degree in agriculture at the University of Manitoba and was beginning a master's in soil science.

"We graduated at the same time – me with my bachelor's and Ken from the ag diploma program," says Bruce. "Ken went back to the farm. I went on to my master's and gravitated to other things. It just worked out that way."

Bruce has tracked weather and monitored crops for the CWB since 1988. He became director of weather and crop surveillance in 1998, and recently assumed responsibility for market analysis as well.

"The roles are complementary. Weather and crop surveillance is looking at global grain supply," he explains. "Market analysis is looking at demand and how it's going to influence the markets. It's a good dovetail."

The daily analyses of satellite weather maps and global crop production data produced by Bruce and his staff underpin the work of several key CWB departments including risk management, market analysis and marketing. In combination with continual monitoring and analysis of global markets, these analyses allow the creation of the monthly Pool Return Outlook (PRO) and the Producer Payment Options (PPOs) in which the PRO is a factor. All of this, Bruce relates back to the farm.

"The background on the farm helps quite a bit; it's true. I have a real-life perspective on what farmers' concerns are, what the important things are in terms of crop quality, crop growth cycles, how critical the critical stages can be in crop development, when farmers are going to want to sell, that kind of thing."

He adds that it's the CWB's relationship with farmers that gives his work its meaning.

"The values of the CWB fit with my personal philosophy of marketing power – who you're representing. I worked for for-profit companies before I came to the CWB. Let's just say I'd rather work in the sector of the industry where you're representing farmers rather than trying to make a profit off them."

The unique role and mandate of the CWB make for a job that demands full use of Bruce's training and convictions.

"From our perspective, we're trying to get the absolute highest price possible for farmers' grain – given all the permutations of the global market, given all the logistics and all of these other constraints. You have to have a lot more fundamental, more detailed view of what's happening around the globe than a grain company that's just buying and selling on margin."

Karen Klimek

Karen Klimek works her way through a small pile of snapshots. Here she's a toddler holding a sample pail on her grandparents' front step. Here she's a teenager behind the wheel of the family grain truck.

Here a young woman in overalls scrambling to the top of a grain bin. These are the wild crocuses on the neighbour's hill. This is the local elevator where they used to haul their grain. It's not there anymore.

"I'M A FARMER FIRST. THAT HELPS NOT JUST WITH THE JOB ITSELF BUT RELATING TO FARMERS AND EXPLAINING THINGS TO FARMERS."

"Before I was old enough to work with equipment, my place on the farm was in the garden and the kitchen with my mom and grandma, making meals and helping with blanching, canning and processing a large amount of fruits and vegetables," she says. "Later on, my job was hauling grain, climbing up and down the bins and in and out of trucks, running samples to the elevator for moisture/protein testing and cultivating fields after harvest."

Karen Klimek, farm business representative (FBR) for northeastern Alberta/northwestern Saskatchewan, has been based in Lloydminster since 2004. She comes to the last photo in her hands.

"And that's my grandpa," she says with an affectionate smile. "He's getting his CWB farmer recognition certificate from Mel after 67 or 68 years of farming. It's one of his most prized treasures."

Karen's grandpa is Karol Ilnicki, who emigrated from Ukraine as a child with his parents and homesteaded northeast of Camrose in the 1920s. "He was so proud of me when I got this job."

Mel Ashcroft was Karen's colleague and mentor based in Camrose, who recently retired after 17 years as an FBR. It was Mel who answered Karen's questions when she worked for two years in the Agricore United elevator at Camrose East.

"He was my CWB rep when I was at the elevator, so I got to know him really well through things like pricing option meetings," Karen explains. "When I got this job, he kind of took me under his wing and eased me into it, so I was lucky."

Now, with almost four successful years under her belt: "I love it. I never have to use an alarm clock to get up in the morning. Every day if I've got a meeting or somewhere to go, I'm up and ready, no matter how early I have to start. Every day it's different work. One day, I'm doing meetings with producers or grain elevator staff. The next, I'm picking up grain samples or filling out a farmer's contract or telling him about a tour or course that's coming up."

Karen and her twin brother were preschoolers when her parents joined her grandparents' farming operation 13 miles northeast of Camrose. An acreage was split off and mom and dad built their own yard a mile from grandma and grandpa – "close enough to help but far enough to be out of the way." Karen's aunt

and uncle and their family eventually joined the operation as well.

"It was a treat to go riding in the combine with grandpa," she says, adding with a laugh, "for eight hours!"

After high school, Karen enrolled in home economics at the University of Alberta but found it was the required agriculture courses that captured her imagination. She switched her major, graduated in 1999 with an agriculture degree in crop science and soil science, and was hired to work for the summer as a crop scout by Alberta Wheat Pool – "Agricore" by the time she actually started the job.

"My grandpa was always a big supporter of Alberta Wheat Pool. And that was my dream back then, to work for Alberta Pool."

At the end of the summer, she moved next door to Agricore's seed lab until Agricore gave way to Agricore United and the majority of the lab's services were discontinued and staff let go. Karen then started working in the elevator and moved easily through several roles for Agricore United. She landed eventually in sales, recommending and selling chemical, seed and fertilizer to local producers and buying their grain.

Then, late one spring night in 2004, waiting for a farmer to come for a load of fertilizer, she spotted a CWB ad for an FBR in a copy of *The Western Producer* that her grandma had passed along. She applied on a whim and hasn't looked back, although she still has a hand in the 1,600-acre grain farm now run by her dad and brother.

"I'm more of an advisor/consultant to my dad and brother now," she says, heading back for weekends whenever she can. It's a connection that defines who she is.

"I'm a farmer first. That helps not just with the job itself but relating to farmers and explaining things to farmers. It helps me give concrete examples when I'm explaining something like Producer Payment Options. It gives farmers more confidence in what I have to say."

She especially appreciates the questions she gets from farm women eager to build on their traditional homemaking and accounting roles and take greater responsibility in the business decisions of the farming operation.

"I really enjoy what I do. And I strongly strongly believe in this organization. I see the difference we can make for farmers. There are so many things they have no control over in their business. We don't control everything either, but we can do our best to make sure farmers get the information they need to make the best possible decisions for their business."

PROFILE

Chris Kuntz

Chris Kuntz, CWB business centre representative, can't think of a better place to have grown up.

The yard was huge – perfect for four brothers to play football with their friends or horse around on the trampoline. There was a John Deere dealership in town, "so everybody had every John Deere toy that was ever made."

"Whatever was available to do in my hometown," Chris says, "we all did; we were all supported to do that by the family farm.

"Montmartre had the only park within four or five towns, the biggest school within four or five towns, a swimming pool, a senior hockey team – the Rivals, a church perogy club, 4-H, and a combined elementary school and high school. When I was there, the school had about 250 kids but it's more now because of school closures nearby."

Over the years, Montmartre, SK, population 550, located 50 miles west of Regina and 13 miles northwest of the Kuntz farm, thrived as other communities shrank and emptied out.

The farm itself was a second-generation farm established by Chris's grandparents and taken over by his mom and dad: 1,700 acres of wheat, barley, flax and canola; 50 cows, half of them purebred; 500 chickens; a garden; and a greenhouse.

"My main thing was the cattle and helping my mom with the garden," says Chris. "But it all depended on what was going on at the time. If the fence needed fixing, we all got together to fix the fence."

But there was a certain reality that the Kuntz brothers always understood – "the reality of four sons and a farm that was really only big enough for one person or maybe two at that time

to take it over." Middle brothers Brian and Mark prepared themselves for a future in farming. Chris, the eldest, and Jonathon, the youngest, "were sort of groomed to go to school and take off, and that's what we did."

Chris, 6' 5", enrolled in agriculture at the University of Saskatchewan in Saskatoon, supporting himself by working as a bouncer in local bars. "It was the best five years of my life, learning and meeting people." Soon, he adds, he'll be best man at the wedding of a friend he met on his first day of orientation.

After university, in 2003, he went home to care for his ill mother and, as it turned out, "to help with the auction sale." It wasn't what the Kuntz brothers ever imagined or hoped for. But none of the brothers felt able to shoulder the debt load necessary to take over from their dad.

With the death of his mother, and his father working full-time at the seed-cleaning business he'd launched a few years earlier, Chris took a job with Pioneer Grain as a location assistant in Imperial, SK, and spent a valuable year-and-a-half "learning from an old-school crop trader and crop-input guy." From there, he was transferred to Pioneer's Wakaw elevator, "doing the same kind of job but at a far more hands-on, doing-everything level." When the elevator closed down, Chris was offered a transfer to another facility but applied to work at the CWB instead. It's been a great fit, to say the least. He stood out immediately in a department of two dozen employees noted for their broad knowledge, professionalism and commitment to farmers.

Wanda and Irvin Eberle farm six miles from where Chris grew up and have known him since he was in kindergarten. They're not at all surprised.

"We ran into him when he was home at Thanksgiving," explains Wanda. "He was so pumped and excited about his job and he was sharing it with us. We were just so impressed with him. Irvin says if you get him on the phone he just lays it all out for you: 'this is it'."

Chris's own take on the subject matches up pretty well.

"I guess I bring everything I've ever worked at to the job. Being immersed in the different payment options and all that every day, I can talk about them, no problem. I can do trade shows. I can talk to farmers in my hometown bar when I go home and visit for holidays. When they ask questions I can answer them in a few words.

"When you're working in a trade show or talking to a guy on the phone about a Fixed Price Contract or a Basis Price Contract, or having a beer with a guy at home and he gets what you're explaining to him and how it can work for his farm, or how this and that can work together, those are really rewarding conversations; those are the best conversations you can have in a job like mine."

He was so pumped

"I GUESS I BRING EVERYTHING I'VE EVER WORKED AT TO THE JOB. BEING IMMERSED IN THE DIFFERENT PAYMENT OPTIONS AND ALL THAT EVERY DAY, I CAN TALK ABOUT THEM, NO PROBLEM."

PROFILE

Ward Weisensel

Within a couple of years of joining the CWB in 1991, Ward Weisensel and his fellow policy analysts appeared before the CWB board of commissioners with a message he has developed and promoted ever since.

The "service package" that the organization provided to farmers at the time was a one-size-fits-all approach consisting of price pooling and delivery contracts.

"IT WAS THE FIRST TIME ANYONE HAD RECOMMENDED THAT WE PUBLISH A POOL RETURN OUTLOOK."

"But each farmer is unique with different needs," says Ward, now chief operating officer. "Just like we treat our customers differently because they're different and have different needs, we were making the case that we needed to do the same thing with farmers – while continuing to provide price pooling as a clear choice that farmers want.

"It was the first time anyone had recommended that we publish a Pool Return Outlook. We also said that we have to move forward on pricing options. The concepts around the Fixed Price Contract and the Early Payment Option – they were all there. And I remember – I don't ever need a lot of notes to speak about a subject I feel strongly about – but this was so different."

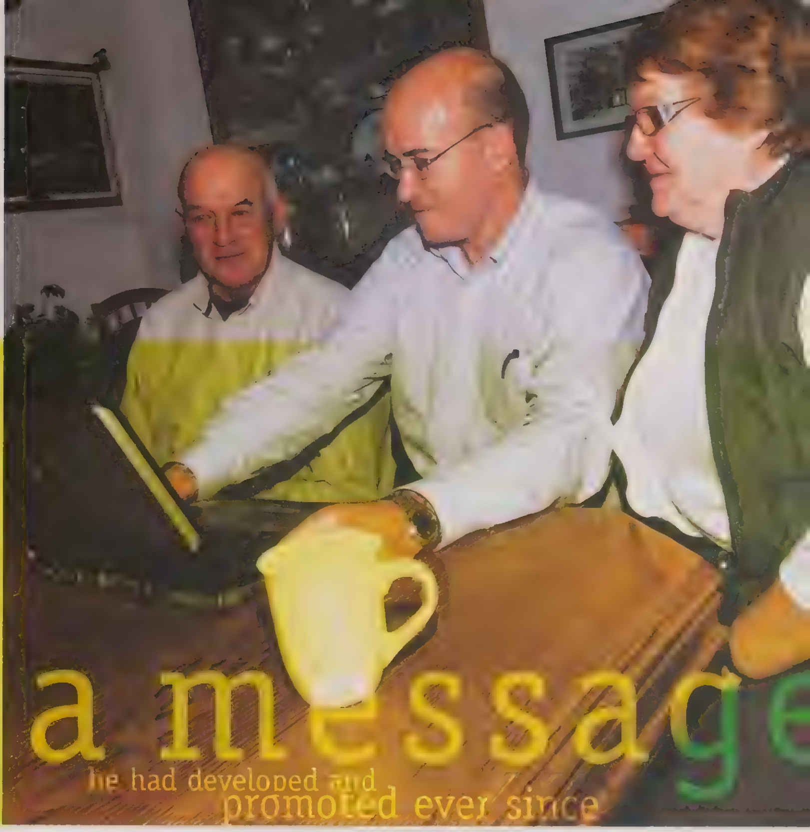
He laughs and shakes his head.

"We were so concerned about how it would be perceived by the commissioners that we wrote it all down word for word and we actually read it. I remember the paper trembling in my hand. We were so nervous."

By the 1993-94 crop year, the PRO and Estimated Pool Return (EPR) had come into being. Having conceived and promoted them, Ward and his fellow policy analysts also became responsible for their creation. Some people might feel put upon, but not Ward. All through his CWB career, he says, "I've been part of the conceptual development of things, and I've had the good fortune to be in those positions where I then became responsible for implementing them."

Of course, he adds, much of what was laid out for the board of commissioners in the early-to-mid 1990s wasn't set in motion until 1998. That's when the board of commissioners was replaced by a farmer-controlled board of directors, the majority elected by western Canadian farmers.

Meanwhile, Ward had begun an impressive journey through various CWB departments – from policy analysis to sales, with a secondment to work on the Western Grain Marketing Panel, and by the mid-1990s, to head of corporate policy. Early in the new millennium, he rounded out his knowledge of CWB operations in the logistics department, and in 2003 became vice-president of marketing, a title that was changed to chief operating officer.



What's the source of Ward's energy and commitment? The Canadian part of the story begins in Breman, SK, less than an hour's drive southeast of Saskatoon. The Weisensels, Ward's great-grandparents, homesteaded in 1905, moving from the U.S., where they'd initially settled as immigrants from Austria/Germany. His mother's family also homesteaded but not until 1938-39.

"My mom's father – my grandfather – was a forestry officer on the frontier in Czechoslovakia. The story goes that he was much more aware of what was happening in Germany than the general population of Czechoslovakia because he'd been talking to people along the border."

The family joined a brother already farming near Mistatim, SK, breaking a quarter section of forest that Ward's uncle and cousin continue to farm.

Ward's father and brother took over and expanded the Weisensel farm, but in 1975, Ward's uncle left the partnership.

"That created an opportunity for me," says Ward. "I became my dad's hired man. I was 12 years old, but I was basically running equipment, doing most of the work that my uncle had done. In spring, I'd prepare the land for Dad to seed behind, so I'd be running the tractor and the cultivators putting on the chemicals. We operated that way right through pretty close to when I moved to Winnipeg."

All through high school, all through the two years he played junior hockey for the Humboldt Broncos while carrying a half-load of courses at St. Peter's College, and all through his undergraduate and graduate studies at the University of Saskatchewan in Saskatoon, Ward continued as a partner in the family farm. At its peak in the mid-1980s, Ward and his father farmed about 2,300 acres of wheat, canola and barley. He graduated with a master's degree in agriculture economics in 1988.

Contract work at the university and for the Saskatchewan government put him in touch with several high-profile people at the CWB.

"They were very sharp people with a global outlook and an incredibly strong commitment to the farmers of Western Canada. That's something that really attracted me in terms of coming here and it's what makes me want to come to work now.

"I'd continued to work on the farm and come out every day that I could until then," he adds. "After I moved to Winnipeg, I was still able to travel out for harvest and in the spring, but to make that commute regularly, well, I guess I had to give it up."

Where will the CWB's chief operating officer be focusing his considerable energy in the coming year? Ward leans forward to answer.

"We've done a lot of things on the wheat side in terms of pricing options. We need to continue to refine those but we really need to advance things on durum and designated barley. We don't have the same flexibility there because there aren't futures markets to hedge risk the same way there are for wheat. But we've come up with some interesting approaches and I'm really looking forward to seeing them through. That's really the next critical stage."

Corporate governance

The following section reviews the CWB's performance highlights, farmer-controlled board of directors, committee structure and leadership team.

CWB performance highlights

The CWB's performance is measured in terms of its achievements in four distinct areas: strategic relationships, business development, supply chain management and corporate development.

STRATEGIC RELATIONSHIPS

Strategic goal: To be recognized and respected as a valued business partner by our farmer-owners and our customers.

Initiatives

- Implement a corporate-wide relationship management approach for farmers
- Implement a corporate brand strategy
- Enhance customer relationship management in marketing
- Strengthen the CWB's trade position in international agreements

Achievements

- Enhanced services for farmers and elevator managers by making it possible to view PPOs online and through the electronic permits application.
- Implemented the Delivery Exchange Contract (DEC), under which farmers have greater flexibility and control over the timing of their deliveries through exchange of delivery periods with other farmers.
- Implemented the Wheat Storage Program (WSP) to store high quality stocks on farm. This will ensure supplies are available for key customers into the next crop year.
- Implemented durum contract changes.
- Developed domestic branding campaign and began national co-branding relationship with Smucker Foods of Canada Co. (Robin Hood flour).
- Continued to be the primary supporter of the Grains They're Essential campaign, designed to increase professional and public awareness of the health benefits associated with cereal grains.
- Completed market tours of China, Japan, Chile, Colombia, Ecuador and Peru to raise awareness of the CWB's branding strategy among key customers and investigate areas of mutual interest.

STRATEGIC RELATIONSHIPS (CONTINUED)

Strategic goal: To be recognized and respected as a valued business partner by our farmer-owners and our customers.

- Conducted a customer satisfaction survey and incorporated the results into the CWB's customer relationship management strategy. The survey results are used to formulate a customer satisfaction index (CSI), which for 2006-07 was 84.01, up from 79.99 two years ago.
- Further developed the CWB's customer database to store and track information about CWB customer preferences and demands in order to increase efficiency and effectiveness in meeting sales demands and ultimately maximize returns for farmers.
- Employed a comprehensive multilateral advocacy strategy to build support for the CWB's objectives for a World Trade Organization (WTO) Agreement on agriculture that benefits western Canadian Farmers.
- Urged the federal government to conclude existing and pursue new bilateral trade agreements in key markets to ensure unfettered, open market access for Canadian wheat and barley.

BUSINESS DEVELOPMENT

Strategic goal: To identify and develop opportunities to grow the CWB by strengthening our market position, investing in business prospects, and developing products and services that add value.

Initiatives

- Engage in a corporate value-added strategy to increase value-adding in Canada
- Continue development and implementation of long-term barley marketing strategies
- Further pursue variety development and distribution strategy
- Increase business development capabilities and pursue opportunities

Achievements

- Determined, through focus groups, farmers' views on the CWB's efforts to promote value-added in western Canadian wheat and barley. This will help ensure CWB policies and processes support value-added in all its forms.
- Created a differentiated pricing program for domestic processors to increase utilization of Canadian processing plants.
- Launched the New Generation Co-op (NGC) value-added initiative. This program offers farmers who are part of an NGC the ability to capture the pooled return for the North American domestic human consumption price.
- Launched the Field to Plate program. This program enables those involved in niche, value-added processing ventures to source grain directly from farmers. The program is designed to encourage and sustain small Prairie processors that have found niche marketing opportunities for processed wheat and barley products.
- Improved quality control for malting barley. Established a database of selected, tendered and cargo-quality supplies for CWB malting barley sales and developed a progress report and future recommendations on CWB-offered direct selection for producer car groups.

- Developed a discussion paper and recommendations regarding expansion of quality payments for malting barley for factors above and beyond protein, coupled with a revision of malting barley grades.This will provide greater incentive for farmers to grow malting barley, as they will receive a more accurate payment for the quality of barley they produce.
- Secured China Green Food label accreditation for all CWB malting barley shipments from Western Canada in order to pursue opportunities in this rapidly expanding market.
- Developed a specialized program in partnership with the Canadian International Grains Institute (CIGI) for potential North American and international processors and manufacturers of new food products containing barley. This program is designed to expand markets for western Canadian barley.
- Implemented a basis contract for malting barley customers that is tied to the western barley futures contract on the Winnipeg Commodity Exchange. This program was launched in the 2005-06 crop year and gives maltsters an added option for pricing.
- Examined the feasibility of production contracts to supply malting barley customers. These production contracts will be further considered for the 2008-09 crop, where warranted.
- Evaluated joint venture activities and potential new varieties to enhance the CWB's position in the development and distribution of wheat and barley varieties.
- Completed planning for the Canada Grains Council (CGC) workshops on Adventitious Presence and Coexistence. The CWB was part of the planning committee.
- Enhanced the CWB's biotechnology strategy to reflect new developments resulting from the Workshop on Adventitious Presence and Coexistence, discussions on the Responsible Introduction of Novel Agricultural Products (RIONAP) and customer interface with respect to Syngenta's fusarium-resistant wheat.
- Established a business development framework/roadmap to evaluate business opportunities, with the purpose of making wheat and barley more profitable. The framework will help management assess the benefits and risks of business development opportunities and provide an early signal on whether it is worth investing time and resources in the full business case development phase.

SUPPLY CHAIN MANAGEMENT

Strategic goal: To develop and manage a supply chain that maximizes net value for farmers, fully satisfies customers' needs, and enhances market opportunities.

Initiatives

- Supply chain transformation
- Leading the industry in quality control and assurance

Achievements

- Developed an automated grain tendering system that will be used to electronically issue a request for quotes to grain companies, and then award the contract to the successful bidder.
- Developed a freight settlement tool to calculate freight charges for transporting grain by rail as directed by the CWB. The tool will also be used for calculating other related freight charges such as railway incentive payments that are paid to grain companies, as well as handling fees to the terminals. For those transportation activities where the CWB is identified as the payer of freight, the system will also automatically create invoices to initiate payment to the railway, freighter and grain companies based on the CWB's own records.
- Launched a strategic planning tool that, based on anticipated supply and demand, will create a Crop Year Plan that defines the most profitable way to allocate supply to customers.
- Launched an e-Permits tool that enables elevator staff, farmers and CWB staff to electronically complete a farmer's permit book application via CWB's e-Services. Eliminating paper applications will result in cost savings that can be passed on to farmers.
- Completed a 2007-08 plan for a food safety pilot program in conjunction with the CGC, as well as a comprehensive approach to food safety and traceability through an On-Farm Food Safety Program.
- Provided financial support and expert resources to develop promising new technology to identify wheat and barley varieties in the absence of Kernel Visual Distinguishability (KVD).

CORPORATE DEVELOPMENT

Strategic goal: To have the structure, capabilities and culture to realize the CWB's vision and mission.

Initiatives

- Develop best practice disciplines that enable the CWB to deliver against the long-term plan
- Strengthen and grow our human resources capabilities
- Develop information technology strategic direction that enables the CWB to deliver against the long-term plan

Achievements

- Prepared an analysis and recommendations on stakeholder and financial reporting gaps. This will ensure that disclosure of financial and other stakeholder information is meeting current best practices as well as farmers' needs.
- Completed an analysis and approved recommendations that the CWB comply with elements of Bill 198 within four years. This will result in the CWB's governance being consistent with best practices, while minimizing the cost of compliance.
- Conducted a review of the CWB's corporate performance management and reporting process to ensure proper alignment with the strategic goals and priorities of the CWB.
- Reviewed and redesigned the employee performance management process to more effectively align with other HR programs and services, such as competency management, learning and development, and compensation programs such as variable pay. This will ensure that performance management and our focus on total compensation at the CWB are in alignment with the corporate strategic goals.
- Implemented a new system to perform formal competency gap assessment through the performance management process. This represents the organization's efforts to grow corporate commitment to and application of CWB competencies that are the foundation for many employee programs and services (i.e., recruitment, learning and development, and succession planning).
- Conducted an employee survey and developed strategies and actions as required. The survey results were also used to create an employee satisfaction index, which was 3.07, below an aggressive target range of 3.5–3.75 but an increase of 0.07 from the previous survey.
- Developed and implemented a comprehensive learning and development program that will help make the CWB a more innovative employer. Learning and development opportunities are more focused towards meeting the organization's needs and direction.
- Implemented a business alignment model to ensure IT service delivery is aligned with business demand.
- Developed an architecture roadmap and competency assessment. This will improve corporate agility in response to changes in the business environment and the ability to reduce the time to market for products and services.
- Began the development of a business continuity strategy and plan to provide a set of guiding principles that will strategically influence technology decisions and ensure business alignment. This effort will continue into the 2007-08 crop year.

Access to information

The CWB became subject to the federal access to information legislation in April 2007 – despite the fact it is neither a Crown corporation nor a government agency. The CWB voiced its concern about inclusion in the legislation, given the strong requirement to protect the confidentiality of commercial transactions and the additional administrative expense it presents for farmers.

The CWB has hired an ATI director and support staff to establish protocols and deal with information requests. As of July 31, 2007, no requests had been received.

Board of directors

The CWB operates as a shared-governance corporation under *The Canadian Wheat Board Act*.

The board consists of 15 members: 10 farmers elected by their peers and five individuals appointed by the federal government, including the president and chief executive officer. In 1998, this unique board structure was created to reflect the CWB's accountability to farmers and to ensure that farmers are in control of their grain marketing organization.

Farmer directors are elected by producers in 10 electoral districts across Western Canada. To ensure continuity on the board, these directors have staggered four-year terms and elections are held every two years, alternating between odd and even-numbered districts. The 2006 elections were held in districts 1, 3, 5, 7 and 9. Two new directors were elected in districts 1 and 7, while incumbent directors were re-elected in the remaining districts. Appointed directors hold three-year terms.

ELECTED DIRECTORS

1. Ken Ritter Chair [District 4]

Ken has been the chair of the CWB's board of directors since its inception and has served on both the National Transportation Agency and the Saskatchewan Surface Rights Arbitration Board. He operates a family farm near Kindersley, SK. In addition to farming, he has practised law and taught school in both Canada and Australia. Ken has degrees in arts from Notre Dame College and the University of Ottawa, in education from the University of Regina and in law from the University of Saskatchewan.

2. James Chatenay [District 2]

Jim operates a family farm near Penhold, AB. He is a graduate of Olds Agricultural College and served six years as a director of the Alberta Charolais Association. He is a member of the Barley Advisory Committee of the Western Grains Research Foundation.

3. Rod Flaman [District 8]

Rod farms with his wife Jeanne just south of the Qu'Appelle Valley, near Edenwold, SK. They produce a variety of field and horticultural crops, including certified organic grain. Rod was educated at the University of Saskatchewan, where he received a Bachelor of Science in mechanical engineering. He worked in the oil, power generation and manufacturing industries for 10 years before returning to the family farm. Rod has served as a director of the Saskatchewan Fruit Growers Association, the Regina Farmers Market and Terminal 22, a farmer-owned grain terminal at Balcarres, SK. He serves as chair of the Wheat Subcommittee of the Western Grain Standards Committee.

4. Larry Hill [District 3]

Larry farms 4,300 acres near Swift Current, SK. He is a graduate of both agricultural engineering and farm business management at the University of Saskatchewan and has worked for Saskatchewan Agriculture. Since 2002, he has chaired the Audit, Finance and Risk Committee. He also serves as chair of the Ad Hoc Trade Committee.

5. Kyle Korneychuk* [District 7]

Kyle and his wife, Susan, farm 4,200 acres near Pelly, SK. Kyle is a graduate of the University of Saskatchewan and holds a Bachelor of Science in chemistry. He has been involved in numerous farm and community organizations, including Saskatchewan Wheat Pool, Borage Growers Group and Prairie Alliance for the Future. In addition to Kyle's farming experience, he has been employed in the mining industry and in government. He has represented both provincial and federal governments on national agriculture and environment committees.

6. Ian McCreary [District 6]

Ian was raised on the mixed farm near Bladworth, SK, that he operates today. He holds a master's degree in agricultural economics and has previously worked at the CWB as a marketing manager and policy analyst. Ian has served as chair of the Farmer Relations Committee and the Strategic Issues Committee. His international experience includes managing a pilot project on food aid and food markets for the Canadian Foodgrains Bank, which included nine projects through Asia, Africa and Latin America.

7. William Nicholson [District 9]

Bill and his family operate a grain farm near Shoal Lake, MB. Bill has a degree in agricultural engineering and has worked in the farm machinery industry. He is in his third term as an elected director. He also served on the former CWB Advisory Committee, was a Manitoba Pool delegate and represented farmers on the Prairie Agricultural Machinery Institute Council. He is currently president of his local credit union board. Bill is past chair of the Strategic Issues Committee and currently co-chairs the Governance and Management Resources Committee. He also represents the CWB on the Barley Subcommittee of the Western Grain Standards Committee.

8. Allen Oberg [District 5]

Allen and his brother John run a grain and cattle operation near Forestburg, AB. Allen has served on the boards of numerous organizations throughout his career, including Alberta Wheat Pool, Agricore and the Canadian Co-operative Association. He currently serves as a board member of the Western Grains Research Foundation and is past chairman.

9. Bill Toews [District 10]

Bill and his wife, Barbara, operate Harambee Farms, a grain and special crops farm at Kane, MB. Bill has a degree in agriculture and a post-graduate degree in soil science. He has served as a director of Keystone Agricultural Producers, the Western Grains Research Foundation and the Manitoba Farm Products Marketing Council. Bill worked in Kenya and Pakistan with the Canadian International Development Agency and served as a sessional associate director and instructor at the University of Manitoba's School of Agriculture. He has been a member of the Manitoba Agri-Food Research and Development Council and currently serves on a local credit union board, the Canadian International Grains Institute and the Wheat Advisory Committee of the Western Grains Research Foundation.

10. Henry Vos** [District 1]

Henry has a degree in agriculture from the University of Alberta and is a professional agrologist. Henry and his wife Anne farm at Fairview, AB. Their farm is over 3,000 acres and specializes in the production of pedigreed seed for processing and retail sale. Henry is a member or shareholder of several Canadian seed companies. He has served on the board of governors of Fairview College, the Alberta Branch of the Canadian Seed Growers Association, the Winnipeg Commodity Exchange and the Alberta Canola Producers Commission. He has been a board member with the Alberta Agricultural Research Institute and a committee member with the Agriculture and Food Council.

APPOINTED DIRECTORS

11. Greg Arason

President and Chief Executive Officer

Greg was appointed interim president and chief executive officer of the Canadian Wheat Board on December 19, 2006. He was previously president and CEO of the CWB between 1998 and 2002. Greg has more than 35 years experience in the grain industry. He formerly served as CEO of Manitoba Pool Elevators (MPE) and as a director of several grain and food operations including CanAmera Foods, Can-Oat Milling, Chamber of Maritime Commerce, Canada Grains Council, Prince Rupert Grain, Westco Fertilizers, Western Grain Elevator Association, and XCAN Grain. He was raised on a grain farm near Glenboro, MB, and educated at the University of Manitoba and the Banff School of Advanced Management.

12. William Cheuk

William is president of Vancouver-based Origin Organic Farms Inc. and Vision Envirotech International Ltd. He is also commissioner of the BC Vegetable Marketing Commission and president of the Chinese Federation of Commerce of Canada. He has led numerous trade missions to Asia and has experience with international trade dispute resolution. William has played a central role in the Environmental Farm Planning Program for sustainable development in agriculture. He has a Bachelor of Business Administration, majoring in accounting, from Simon Fraser University, as well as bachelor and doctorate degrees in chemical and biological engineering from the University of British Columbia.

13. Glen Findlay

Glen and his wife Kay, along with their family, operate a 5,000-acre, 300-head beef farm at Shoal Lake, MB. Glen holds bachelor's and master's degrees in animal nutrition from the University of Manitoba and a Ph.D. in nutritional biochemistry from the University of Illinois. He has served as a post-doctoral fellow at the National Research Council in Ottawa and as a professor in the Faculty of Agriculture at the University of Manitoba. He was a member of the Manitoba Legislative Assembly for 13 years, where he served as minister of agriculture, minister of highways and transportation and minister responsible for telecommunications. While a minister, he was involved in numerous international trade missions. He also served as a member of the Canadian Transportation Act Review Panel and has been an Agricore United delegate. He has been active in several farm organizations and community sports.

14. Bruce Johnson

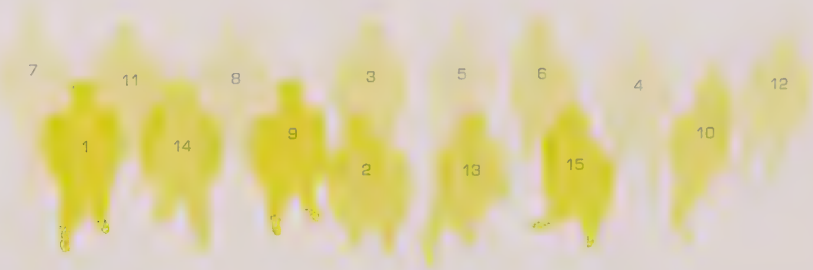
Bruce has worked in the grain industry for more than 25 years. He has held senior positions in both privately held and cooperative grain companies and has served on several boards. Bruce has provided consulting services to a broad range of clients in transportation, food and agriculture and government. He holds a Bachelor of Arts from the University of Manitoba. He currently co-chairs the Governance and Management Resources Committee.

15. Ken Motiuk

Ken has extensive experience in agri-business and owns and operates grain and livestock operations near Mundare, AB. He holds a Bachelor of Science in agricultural economics from the University of Alberta. Ken currently serves as a director of the Alberta Credit Union Deposit Guarantee Corporation, a member of the Alberta Economic Development Authority and a member of the Institute of Corporate Directors. Previously, he served as a governor of the Winnipeg Commodity Exchange, a member of the Alberta Grain Commission and a director of Agricore United.

* Replaced Dwayne Anderson

** Replaced Art Macklin



The board's mandate

The board of directors is accountable to farmers for establishing and achieving the CWB's stated objectives. It does this by setting overall strategic direction and reviewing and approving strategic plans, budgets, financial statements, the annual business plan and the borrowing plan. The board establishes performance measures against which long-term and annual plans can be evaluated. The board also ensures management has appropriate systems in place to manage risk, maintain the integrity of financial controls and oversee information services. In addition to the annual business plan, the marketing and government relations plans are board-approved vehicles that enable the directors to evaluate management's progress against set business objectives. For purposes of establishing objectives, the board places a high priority on listening to farmers and ensuring that the views of farmers are brought forward to the entire board.

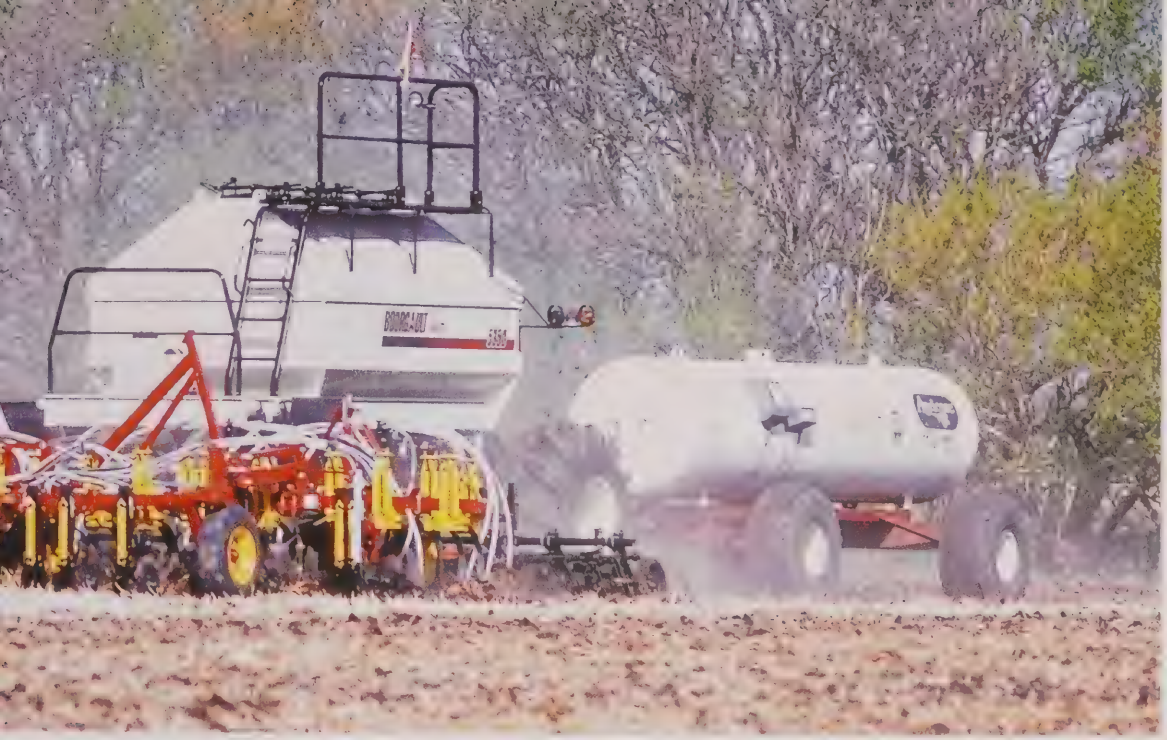
Leading by example

The 2006-07 crop year was a challenging one for the CWB. It was a year in which the board effectively transitioned to an interim CEO, engaged in several legal challenges related to its mandate and role as a shared governance corporation, sought judicial clarification on the marketing of barley, and intervened in Great Northern Grain's level-of-service case against CN Rail. Despite this challenging environment, the board continued to provide strong strategic leadership and remained firmly committed to ensuring that the CWB continues to serve the best interests of western Canadian farmers. Specifically, it listened to farmers, leading to the development of significant enhancements to producer options and the agreement of the board to seek additional substantial ways to provide pricing and delivery flexibility.

Commitment to good governance

The board has taken a proactive approach to its governance philosophy and framework. Although not legally subject to recent legislative reforms, it has assumed best practice guidelines for its own governance standards. With the exception of the president and CEO, all of the directors on the board are independent of management. The board has a comprehensive governance policy and process framework to demonstrate the CWB's commitment to good governance, including:

- an approved code of conduct and conflict of interest guidelines
- a list of significant policies developed and approved by the board that guide corporate conduct



- terms of reference for the board of directors that establish the mandate and responsibilities of the board with clear delegation to the CEO of the balance of decision-making
- role and responsibility descriptions for the key players in the CWB's governance framework, including the chair of the board, the CEO, each committee and individual directors
- comprehensive orientation for new directors and ongoing professional development
- the holding of regularly scheduled in-camera meetings
- executive succession planning
- use of board performance assessment tools
- internal controls that have been assessed and continue to be monitored to ensure integrity and accountability.

As part of strategic planning, the board annually reviews and supplements an integrated risk-management summary that identifies and measures external risks and opportunities.

During the 2006-07 crop year, the board continued to provide strong governance and leadership. In particular: it undertook a review of its director compensation policy and confirmed the existing compensation limit; members of the Audit, Finance and Risk Committee participated in financial literacy training and development in accordance with best practice guidelines; a number of directors attended and successfully completed additional learning modules at the Director's College; individual directors continued to sit on external boards and committees to ensure the CWB's perspective is considered in third-party and stakeholder policy formulation; and numerous accountability meetings were hosted across the Prairies to ensure accurate and transparent communication with farmers.

Committee structure

To assist it in fulfilling its governance role and responsibilities, the board of directors has established four standing committees. In 2006-07, there were also ad hoc committees on trade and the CEO search.

Audit, Finance and Risk Committee

Mandate – This committee's primary responsibilities include the review of financial reporting, accounting systems, risk management and internal controls. It facilitates the conduct of an annual audit, assesses performance measures, reviews annual financial statements and accounting practices and reviews financial/business risk policies, plans and proposals.

Members – Larry Hill (chair), William Cheuk, Bruce Johnson, Ian McCreary, Ken Motiuk, Bill Nicholson and Henry Vos.

Governance and Management Resources Committee

Mandate – This committee focuses on governance to enhance board and organizational effectiveness. It also assists the board in fulfilling its obligations related to human resource and compensation matters.

Members – Bruce Johnson (co-chair), Bill Nicholson (co-chair), William Cheuk, Glen Findlay, Rod Flaman, Ian McCreary and Henry Vos.

Strategic Issues Committee

Mandate – This committee ensures that strategic and policy issues are identified and that priorities, time frames and processes to address these issues are recommended to the board. It coordinates the board's input to the CWB's strategic planning process.

Members – Bill Toews (chair), James Chatenay, Glen Findlay, Rod Flaman, Kyle Korneychuk and Allen Oberg.

Farmer Relations Committee

Mandate – This committee reviews and recommends strategic plans for farmer relations, communications and government relations.

Members – Allen Oberg (chair), James Chatenay, Larry Hill, Kyle Korneychuk, Ken Motiuk and Bill Toews.

Ad Hoc Trade Committee

Mandate – This committee reviews and recommends strategies on trade-related issues that could affect the CWB's ability to fulfill its mandate.

Members – Larry Hill (chair), James Chatenay, Glen Findlay, Ian McCreary, Bill Nicholson, Allen Oberg and Henry Vos.

Ad Hoc CEO Search Committee

Mandate – This committee was established to lead the board's CEO executive search process. In addition to board membership, there are also four representatives of the federal government on the committee.

Members – Ken Ritter (chair), William Cheuk, Larry Hill, Allen Oberg and Henry Vos.

Compensation table and meetings attended, 2006-07 crop year

Board of directors

		Remuneration			Attendance		
Director	District	Retainer	Per diems	Total	Board meetings	Committee meetings	Industry/ miscellaneous meetings
Macklin, Arthur[1]	1	$ 8,333	$ 6,750	$ 15,083	5/5	5/5	3
Vos, Henry[2]	1	11,667	20,250	31,917	13/14	17/17	9
Chatenay, James	2	20,000	29,500	49,500	18/18	17/17	22
Hill, Larry	3	20,000	38,075	58,075	18/18	25/25	34
Ritter, Ken	4	60,000	41,525	101,525	18/18	29	35
Oberg, Allen	5	20,000	28,250	48,250	18/18	18/21	18
McCreary, Ian	6	20,000	25,750	45,750	18/18	19/19	24
Anderson, Dwayne[1]	7	8,333	5,500	13,833	5/5	6/6	1
Korneychuk, Kyle[2]	7	11,667	19,000	30,667	13/13	10/10	24
Flaman, Rod	8	20,000	32,500	52,500	18/18	18/18	29
Nicholson, William	9	20,000	22,900	42,900	18/18	18/18	23
Toews, William	10	20,000	31,625	51,625	18/18	14/14	65
Arason, Greg	A	N/A	N/A	N/A	11/11	15/15	N/A
Cheuk, William	A	20,000	22,500	42,500	17/18	23/26	6
DuPont, Bonnie[3]	A	6,667	2,000	8,667	3/3	3/3	0
Findlay, Glen	A	13,333	15,000	28,333	15/15	8/8	7
Johnson, Bruce	A	15,000	16,000	31,000	16/16	18/18	2
Keith, Ross[4]	A	5,000	2,000	7,000	2/2	4/4	0
Measner, Adrian[5]	A	N/A	N/A	N/A	4/4	7/8	N/A
Motiuk, Kenneth	A	17,500	27,750	45,250	18/18	21/21	11
Total:		**$ 317,500**	**$ 386,875**	**$ 704,375**			

Notes:

A = Appointed
[1]August to December 2006
[2]January to July 2007
[3]Served until October 25, 2006
[4]Served until October 26, 2006
[5]Served until December 19, 2006

Directors are paid an annual retainer and per diem allowances. The board chair receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $4,000 per committee chaired. A per diem of $500 per full regular meeting day is paid to each member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for directors. There is no limit for the board chair.

Directors do not participate in any corporate pension plan or any corporate benefit plan, with the exception of travel accident and travel medical insurance.

Director representation on external boards and committees 2006-07 crop year

The board of directors is invited to name representatives to serve on external boards and committees related to the Canadian grain industry. The following is a list of directors assigned during the 2006-07 crop year.

External board or committee	Position	Director
Agriculture and Agri-Food Canada Cereal Grains Value Chain Roundtable	CWB board representative	Rod Flaman
Canada Grains Council	Board member	Greg Arason
Canada Grains Council On-Farm Food Safety Committee	CWB board representative	Allen Oberg
Canadian Federation of Agriculture	CWB board representative	Larry Hill
Canadian International Grains Institute	Board member	Bill Toews
Malt Barley Industry Group	CWB board representative	Henry Vos
National Forum on Seeds	CWB board representative	Kyle Korneychuk
Western Grain Standards Committee	Member, wheat subcommittee Member, barley subcommittee	Rod Flaman William Nicholson
Western Grains Research Foundation	Member, barley advisory committee Member, wheat advisory committee Board member	James Chatenay Bill Toews Allen Oberg

CWB Leadership Team

This crop year marked a period of great uncertainty for the organization due to extraordinary political pressure. In December 2006, the federal government removed President and CEO Adrian Measner from office. He was replaced on an interim basis by Greg Arason, who had served as president and CEO prior to Mr. Measner's appointment.

The Leadership Team, comprising senior officers of the CWB, is responsible for overseeing the operations of the organization and driving the achievement of the CWB's strategic direction as set by the board of directors. The team provides crucial support to the board in establishing the CWB's vision, mission and strategic initiatives. It is also accountable for the successful implementation of the annual and long-term plans for the CWB.

In November 2006, one member of the leadership team resigned from the organization to pursue another career opportunity. This position was filled from the CWB's succession plan.

Leadership Team compensation

Salaries and benefits provided below are for eight positions for the 2006-07 crop year, seven positions for the 2005-06 crop year, and 16 positions for the 2004-05 crop year. The figures reflect actual salaries paid and the cost of benefits.

The leadership team's compensation is set according to established policies that are approved by the board of directors.

	2006-07 Actual	2005-06 Actual	2004-05 Actual
Salaries	$ 1,670,277	$ 1,254,490	$ 2,608,635
Benefits	516,670	470,137	1,015,783
Total	**$ 2,186,947**	**$ 1,724,627**	**$ 3,624,418**

Summary compensation table, 2006-07

Salary disclosure for current employees for the top five salaries within the organization is being provided as part of the CWB's commitment to be open and accountable to farmers. The following table outlines annual compensation for the president and CEO and chief operating officer, as well as the three other highest-paid senior officers of the company for the 2006-07 crop year.

Greg Arason – President and CEO (contract agreement). $360,000

Ward Weisensel – Chief Operating Officer $239,865

Brita Chell – Chief Financial Officer. $185,850

Deanna Allen – VP, Farmer Relations and Public Affairs. $181,600

Graham Paul – Chief Information Officer $170,970

Notes:

Reflects annual salaries as of July 31, 2007.

No additional payments were made to base pay during this period. The value of perquisites for each senior officer did not exceed the lesser of $50,000 or 10 per cent of total annual salary.

Leadership Team

Greg Arason
President and CEO
from December 2006[1]

Ward Weisensel
Chief Operating Officer

Brita Chell
Chief Financial Officer

Graham Paul
Chief Information Officer

Deanna Allen
Vice-President, Farmer Relations and Public Affairs

Diane Wiesenthal
Vice-President, Human Resources
from December 2006[2]

Deborah Harri*
Corporate Secretary

Jim McLandress*
General Counsel

*Positions were officially added to the Leadership Team in January 2007.

[1] Adrian Measner, President and CEO to December 2006.

[2] Laurel Repski, Vice-President, Human Resources to November 2006.

Management discussion and analysis

Responsibility

The following discussion and analysis (MD&A) is the responsibility of management as of November 21, 2007. The board of directors carries out its responsibility for the review of this disclosure, principally through its Audit, Finance and Risk (AFR) Committee. The AFR Committee reviews the disclosure and recommends its approval by the board of directors.

Contents

Our business

Controlled by western Canadian farmers, we are the largest single-desk wheat and barley marketer in the world. As one of Canada's biggest exporters, we sell grain to more than 70 countries and return all sales revenue, less the costs of operations, to Prairie farmers.

PRODUCTS

Wheat

Western Canadian wheat is marketed to customers in more than 70 countries worldwide and enjoys an international reputation for consistency, reliability of supply and quality. Flour made from wheat is the main ingredient in many staple foods, including pan breads, flat breads, steam breads, some noodles and other products such as crackers.

Durum

We market quality durum wheat grown by western Canadian farmers to more than 40 countries around the world. Semolina is the most common product from durum milling. Semolina is primarily used in pasta and couscous, which is a staple dish in North Africa.

Designated barley

About 65 per cent of Western Canada's barley acres are seeded to malting varieties. Roughly 25 to 30 per cent meet the strict quality control standards set for malting barley selection. The majority of the quality barley is used to make malt for beer, both domestically and internationally. Smaller quantities are used for whiskey distilling, confectionery and in various food and baked products.

Feed barley

Most feed barley from Western Canada is formulated into feed for the domestic hog, cattle and poultry industries. It is the central ingredient used by western Canadian feedlots to produce quality Canadian beef. Normally about 95 per cent of feed barley is consumed domestically. Barley grown for domestic livestock feed or industrial uses such as ethanol does not have to be sold through the CWB. Feed barley may be sown specifically for animal consumption or consist of unselected malting varieties.

Operational environment

The vast majority of grain grown in Canada comes from farmers living and working on the Prairies. We market approximately 18 to 24 million tonnes of western Canadian wheat, durum and barley on behalf of western Canadian farmers each year. Annual revenue from those sales is between $3 billion and $5 billion, with all sales revenue, less marketing costs, returned directly to farmers.

Global competition

The global market for wheat, durum and barley is highly competitive. For more than 70 years, we have sustained and built our market presence through branding, reputation and customer service. As a result, we have become the largest single-desk wheat and barley marketer in the world. However, all competitors are seeking ways to sustain and expand their share of the global market, particularly in premium markets.

Each year, we market between 12 and 16 million tonnes of milling wheat to customers in Canada and around the world. Our major international customers vary from year to year and include China, Japan, Sri Lanka and Indonesia. The U.S. has also traditionally been a key market for Canadian milling wheat.

Together, Canada, Argentina, Australia, the European Union (EU) and the U.S. account for approximately 73 per cent of the total wheat traded worldwide, while producing slightly more than 40 per cent of the world supply. The disparity has the potential to exert pressure on Canada's market share – especially as traditionally "minor" exporting countries (such as Russia, Kazakhstan and Ukraine) increase their presence as wheat exporters (see Figure 1). Additional competitors with cost-of-production advantages, such as lower land and input prices, also continue to emerge.

Figure 1: Market shares of production and exports by principal wheat-exporting countries

(% of world totals 2002-06)

* Includes wheat flour and durum; includes FSU intra-trade.

A similar condition exists in the durum market. The EU, Canada and the U.S. control approximately 80 per cent of the export market. Meanwhile, Canada holds a 52 per cent share of the world durum market. However, these countries together produce less than 45 per cent of the world's durum supply, with Canada producing only 12 per cent.

Global buyers value Canadian durum for its consistency, quality and ease of supply, which is ensured by our superior marketing and grain-handling systems. Italian pasta makers are among the top buyers of Canadian durum, a group that also includes customers in other European nations, North Africa (Algeria, Morocco, Tunisia), South America (Venezuela, Chile, Peru) and the U.S. (see Figure 2). Canada's own domestic pasta industry purchases roughly 300 000 tonnes of durum a year and is usually among the top five buyers.

For more than 70 years, we have sustained and built our market presence through branding, reputation and customer service.

In the feed and malting barley export markets, the main suppliers are Australia, Canada, the EU and the U.S., which together control approximately 59 per cent of exports (see Figure 3). In most years, Australia dominates the barley market, capturing about 25 per cent of exports. Two-row malting varieties from Western Canada are used in the domestic brewing industry and are also sold to major malt and malting barley customers in the U.S., Asia, Central and South America and South Africa. Six-row malting varieties from Western Canada are predominantly marketed to the malting and brewing industry in Canada and the U.S., with smaller quantities sold to Mexico.

Corporate concentration

A handful of vertically and horizontally integrated multinationals effectively control the global grain trade. Four companies – Cargill, Louis Dreyfus, Archer Daniels Midland (ADM) and Bunge – control about 73 per cent of the global market for grain. Several Canadian-based companies are closely linked to these companies and control many parts of the Canadian supply chain, including grain handling, feed and fertilizer production, feedlots, transportation, food processing and financial trading. While the CWB is the largest single-desk marketer of wheat and barley in the world, its annual revenues represent a small fraction of those of the huge multinationals with which it competes.

Figure 2: Market shares of production and exports by principal durum-exporting countries

(% of world totals 2002-06)

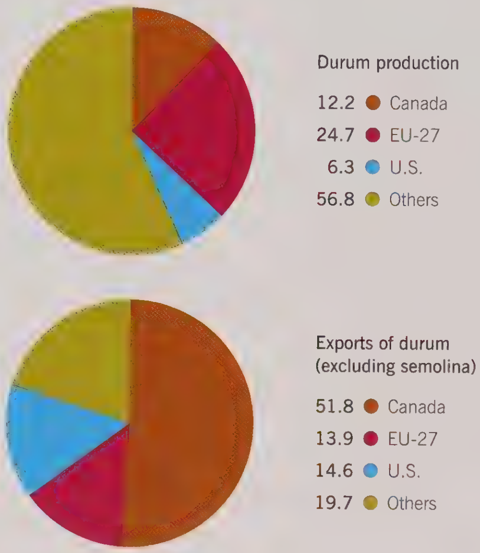
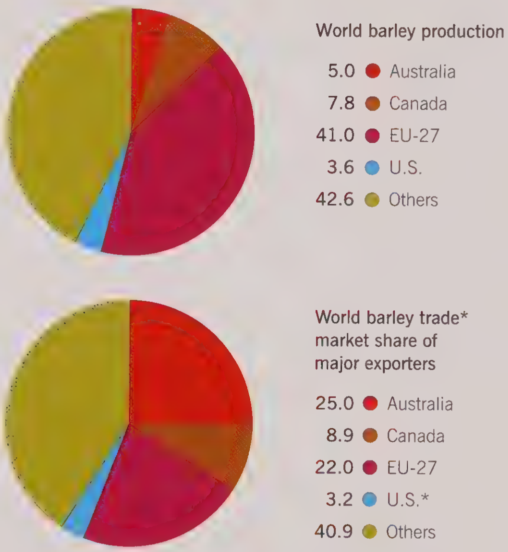


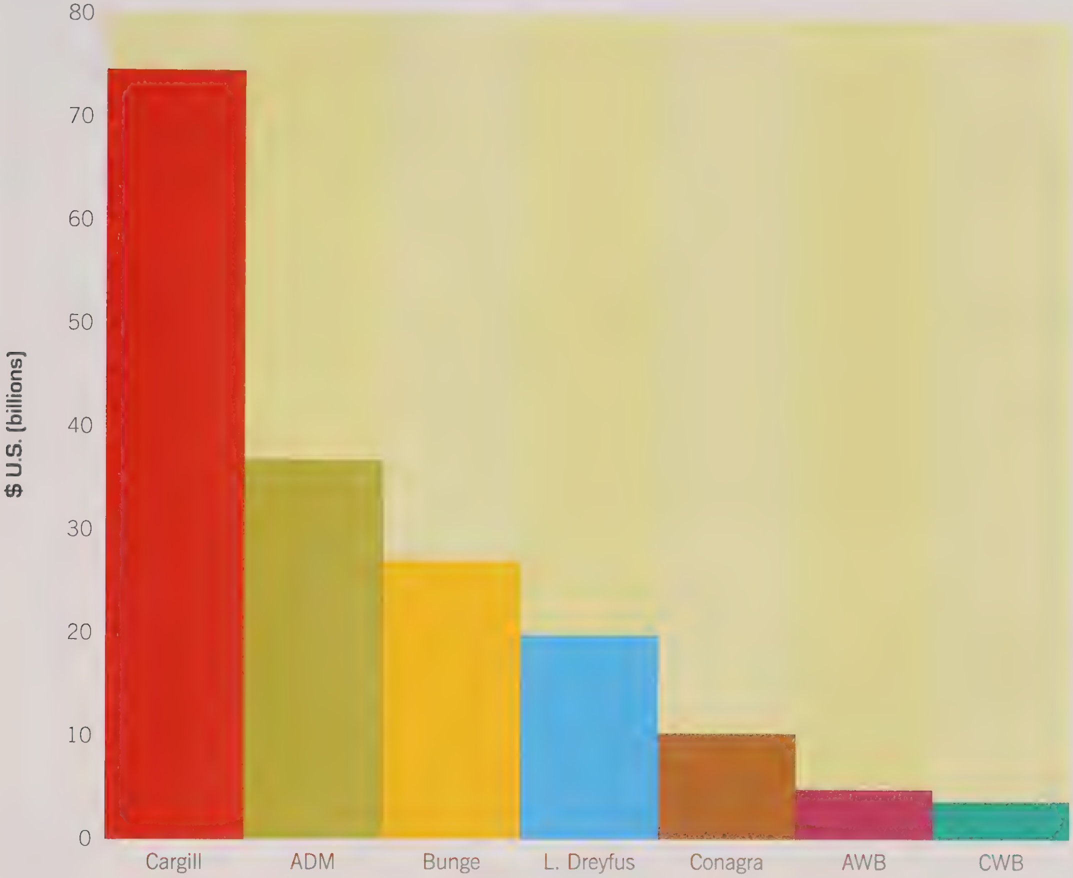
Figure 3: Market shares of production and exports by principal barley-exporting countries

(% of world totals 2002-06)



* Excludes products

CWB competitors – Annual company revenue*



* Sourced from 2006 annual reports and public financial data. Data for year-end within 2006. Louis Dreyfus figure represents an annual averag

Subsidies

Farmers don't all compete on the same playing field. The international grain marketplace continues to be distorted by the effects of subsidies paid to grain producers. High levels of domestic support and various tools designed to stimulate exports combine to insulate farmers from true global supply and demand factors, resulting in distorted production and prices. Western Canadian wheat and barley farmers receive less subsidy support than farmers in other major exporting countries, despite competing in the same international markets

Business structure

We are a shared governance corporation created by *The Canadian Wheat Board Act (The Act)*. We are not a Crown corporation, nor do we have any shareholders. The board of directors consists of 15 members: 10 are farmers elected by their peers; four are leaders from the business community and are appointed by the federal government; and the chief executive officer is recommended by the board of directors and appointed by the federal government. According to the board of directors' terms of reference, all directors are required to act in the best interests of the Corporation, in order to maximize returns to western Canadian producers.

Three pillars underpin the operations and structure of the CWB – the single desk, price pooling and government guarantees.

The single desk

When the CWB was established by Act of Parliament in 1935, deliveries to the CWB were voluntary, and it handled only wheat. In 1943, *The Act* was amended, empowering the CWB to market all Canadian grains and making delivery to the CWB compulsory. Subsequent amendments removed some grains from the CWB's "single desk"; we are now the single marketing agent for wheat and barley grown in Western Canada. Our mandate covers both the export and human consumption markets. Wheat and barley grown for domestic livestock feed or industrial uses (like ethanol) need not be sold through the CWB.

The single desk adds value for western Canadian farmers by enabling them to capitalize on Canada's reputation for grain quality, consistency, food safety, customer service and reliability. Western Canada's 75,000 wheat and barley farmers market as one through the CWB. Working together, instead of competing against one another for each sale, enables farmers to command a higher return for their grain and to have clout on issues that impact their bottom lines.

Under the single-desk model, farmers are empowered to compete in a global grain trade that is largely controlled by a handful of multinational corporations, and in a domestic grain-handling and transportation system dominated by two large grain companies and two national railways.

Price pooling

Price pooling means that all sales revenue earned during the crop year (August 1 to July 31) is deposited into one of the pool accounts: wheat, durum wheat, designated barley, feed barley A or feed barley B. The pooling system returns all revenues, less marketing costs, to farmers through these pool accounts. This ensures that all farmers delivering the same grade of wheat or barley receive the same returns at the end of the crop year, regardless of when their grain is sold during the crop year. It acts as a risk-management tool that allows farmers to share market risks by giving each farmer his or her fair share of the highs and lows of the marketplace.

Government guarantees

The CWB currently has financial guarantees on initial payments, borrowings and credit sales through the federal government. Guaranteed initial payments provide a minimum price floor, giving farmers protection from the extreme volatility of grain markets. Guaranteed borrowings are used to finance payments to farmers before sales revenue is received, helping our farmers meet their operating costs. Credit guarantees allow us to compete in a marketplace with multinational companies who have access to similar or even more generous credit programs offered by their respective governments.

Producer direct sale (PDS)

Farmers have the ability to sell directly to buyers through the PDS program in order to take advantage of niche- and premium-market opportunities. This program ensures that all western Canadian farmers retain the benefits of single-desk selling and earn their share of the single-desk premiums, while enjoying additional marketing opportunities.

These options provide farmers with the ability to manage their own pricing risks without affecting pool accounts.

Beyond price pooling: Producer Payment Options (PPOs)

When farmers requested the opportunity to exercise greater individual control over pricing their wheat, durum and barley, as well as how and when they get paid, we introduced PPOs. These options provide farmers with the ability to manage their own pricing risks without affecting pool accounts. PPOs mimic the open-market environment, while keeping the security and benefits of the single desk intact. Program costs for PPOs are designed to be covered entirely by the farmers who use them.

The main payment options now available to farmers through the CWB (in addition to the traditional pooling system) are as follows:

Fixed Price Contract (FPC): Through the FPC, farmers are able to lock in a fixed and final price for their grain, based on a market value.

Basis Price Contract (BPC): The BPC enables farmers to lock in the pooled basis and futures at different times during the program.

Daily Price Contract (DPC): The DPC is also a fixed price contract, which allows farmers to lock in a price for their wheat that reflects U.S. market spot prices on the day they choose to sell their grain.

Early Payment Option (EPO): An EPO contract enables farmers to establish a floor price based on the PRO. The farmer can lock in at 80, 90 or 100 per cent of the PRO, each with a corresponding discount. This option also allows farmers to participate in price gains if pool returns exceed the EPO price.

Pre-delivery Top-up (PDT)

Western Canadian farmers are able to access cash advances from the federal government through a variety of programs we administer on its behalf. The PDT program provides farmers with the opportunity for additional cash flow early in the crop year by providing an additional pre-delivery payment.

Wheat Storage Program (WSP)

The WSP offers western Canadian farmers a contract premium and storage payment to store their high-quality, high-protein, No. 1 CWRS wheat on-farm. It ensures a consistent stock of high-quality, high-protein wheat to satisfy the needs of the CWB's premium customers. The WSP is offered in specified areas when warranted by crop quality in a given year.

People

We have a diverse and highly skilled workforce that is crucial to our success. The organization's headquarters are in Winnipeg and satellite offices are located in Vancouver; Ottawa; Beijing, China; and Tokyo, Japan. We also operate regional offices in Saskatoon, SK and Airdrie, AB.

The majority of the organization's 460 employees are based in Winnipeg. Seventeen farm business representatives cover large districts across Western Canada and are responsible for serving the business needs of farmers and maintaining contact with the individual grain-handling facilities within their districts. They meet with farmers both individually and in groups to provide regular updates on the CWB's programs. They also work with farmers on issues concerning delivery, contracts and payments.

Our vision and strategies

The CWB is a marketing agency that belongs to Prairie farmers. It enables them to have a significant presence in the international marketplace. It does not insulate them from the realities of this marketplace, but it gives them the means to bring innovative solutions to the challenges they face.

Our strategy is to grow our competitive advantage in order to add value for farmers. We do this by leveraging the single desk, branding western Canadian wheat and barley, providing service excellence for both farmers and end-use customers, developing new markets and managing costs effectively. External studies using CWB sales data have confirmed that this strategy provides farmers with higher returns than they would receive in an open market. In addition, all marketing revenues, less associated costs, are returned to farmers. This allows us to have a single focus: earn as much as possible for farmers through the marketing of their wheat, durum and barley.

Key performance drivers

We have established a set of corporate performance measures against which the organization measures its ongoing progress towards its goals. The measures were established through an extensive examination of our key business drivers. Through this exercise, the organization identified seven areas of value creation:

Active farmer support – As the major stakeholders of the organization, farmer support is critical to us. To be successful, we must ensure we understand and meet the needs of farmers better than any other organization.

Strengthened mandate – Winning public, domestic and international political support is critical to operating successfully and growing as a single desk.

Customer satisfaction – Understanding and serving customer needs is vital and ensures we will continue to be an effective grain marketer and generate maximum value for western Canadian farmers.

Maximizing returns – The organization must continually focus on earning the highest possible returns for farmers through the single desk.

Operational effectiveness – Providing high service levels to farmers and customers, while aggressively managing costs, is important to ensuring we serve farmers' interests in the best possible manner.

Market development – To ensure the continuation and development of ongoing high-value markets for western Canadian farmers' grain, we must actively develop new products and services, bring existing products and services to new markets and grow sales of current products to existing customers.

Motivated/skilled workforce – To achieve our goals, we must ensure the organization maintains a well informed, highly skilled and motivated workforce that is focused on delivering value to farmers and customers.

The CWB has identified several key measures for each of these areas of value creation. Each year, the measures are reviewed and refined and annual targets are set in accordance with the organization's strategic objectives. Progress against these targets is measured throughout the year to ensure that the CWB continues to advance its goals and achieve results that are in line with organizational objectives.

How the financial statements capture the business

The Canadian Wheat Board Act requires that we establish a separate pool account each crop year (defined as August 1 to July 31) for each of the crops we handle. Currently, we operate five pool accounts each year: one each for wheat, durum and designated barley and two for feed barley. These pool accounts capture the revenues and expenses for tonnes contracted and delivered by farmers, and sales made to customers for each specific crop. After all deliveries contracted for the crop year have been received and all activities related to the sale of grain have been completed, the net earnings for each pool are distributed to producers. We provide a separate statement of operations for each pool account to report on these activities, as well as a combined pool statement of operations.

The net earnings in each pool account are distributed back to the farmers who delivered grain during the pool period, based on sales results by grade. As a result, we do not have any retained earnings or permanent capital. The statement of distribution provides the details of how the net earnings are distributed. This statement reflects initial, adjustment, interim and final pool payments to producers as approved by the federal government. It also includes any special transfers to the Contingency Fund and the portion of the government-approved payments related to the PPO programs.

The PPO programs were set up to give farmers more flexibility in pricing their grain and were designed to operate outside of the pool accounts. Therefore, the PPOs do not require that net program results be returned to the users of the program. The CWB bears the risk of the programs and retains the benefits of these programs.

A contingency fund was established and the net surplus or deficit of the PPO program (the difference between the program sales values and direct program expenses, including the payment to farmers based on contracted values) is transferred to this fund. It is capped at $60 million and is controlled by legislation.

Since all earnings from the pools, (except those of the PPO programs) are distributed to farmers, our operations are financed by borrowings. These borrowings are made in various capital markets and are guaranteed by the federal government.

The CWB: Adding value for farmers

Adding value for farmers goes beyond how we market grain. We are advocates on issues that impact farmers' bottom lines, partners in research and development, and allies on transportation issues.

We are committed to staying at the forefront of issues that affect farmers' profits. We continue to advocate for fair and equitable access to international markets and an end to trade-distorting subsidies. We've ensured that Canadian negotiators at WTO talks are fully aware of the needs of western Canadian farmers in any forthcoming WTO agreement on agriculture, and we've attended international trade talks ourselves to deliver farmers' messages first-hand. We have supported the federal government's efforts to establish bilateral agreements with key customer countries, and focused attention on parts of the globe where further agreements are required. In previous years, we have lobbied against the premature introduction of genetically modified wheat and for the expansion of the federal cash advance program. In recent months, we have lobbied the federal government for a speedier process for farmer payments. In order to protect farmers' commercial interests, we also sought a judicial review of the legality of removing barley from the single desk through regulation. The Federal Court ruled July 31, 2007 that the way barley is marketed cannot be changed without parliamentary approval.

At the CWB, we believe in the value of research and development. Whether the outcome is improving farmers' income and operational success, growing sales in our high-value markets or developing relationships with new customers, research and development is key to maintaining our competitive edge. That is why we are committed to investing in research that yields new varieties of disease-resistant wheat and barley, as well as those with specific end-use qualities that customers demand. Our strategic partnerships with centres like CIGI or the Canadian Malting Barley Technical Centre (CMBTC) help ensure we maintain and build on our reputation for unparalleled customer service. We are also a driving force in the development of new technology, such as variety identification equipment, which promises to accommodate the introduction of new varieties while maintaining Canada's quality assurance system.

Transportation is a fundamental issue for farmers. Moving grain grown on the Prairies to port position can be costly and complicated. Limited rail capacity means it can be difficult to secure enough rail cars to move farmers' grain. By marketing as a group through the CWB, farmers have the clout to demand adequate rail car service. When the railways fail to provide adequate service, we have been able to challenge them – as we did in April when we intervened in a major level-of-service case launched by GNG, a grain terminal in northern Alberta, against CN Rail. At stake: the ability of smaller and single-point shippers to move their grain to ports and markets. The Canadian Transportation Agency (CTA) ruled in favour of the GNG on July 6. We have lobbied for changes to *The Canadian Transportation Act* that help keep costs in check. We also administer a producer car program that allows farmers to load grain in their own communities.

By marketing as a group through the CWB, farmers have the clout to demand adequate rail car service.

Current year results

Factors that shaped the 2006-07 business conditions

1. World production

Wheat

World wheat production in 2006-07 was lower than in 2005-06, but still higher than the historical average. The International Grains Council (IGC) estimates world wheat production for 2006-07 at 590 million tonnes, 30 million tonnes less than 2005-06. Compounding the fact that world wheat production was lower than the previous year, consumption was the highest on record, which tightened world ending stocks. World wheat ending stocks for 2006-07 were the lowest since 1981-82. The five major exporter stocks decreased by over 20 million tonnes to 38 million tonnes. Canada's 2006-07 ending stocks were 6.8 million tonnes, which was less than in 2005-06, but still above the record low of 5 million tonnes set in 1988-89. Prices increased steadily throughout the year, with rapid appreciation occurring during June and July of 2007.

Durum

World durum production in 2006-07 totalled 34 million tonnes – a decrease of 3.2 million tonnes from 2005-06. Durum production in North America was the lowest since 2001. Canadian production of durum dropped 2.6 million tonnes from 2005-06 to 3.3 million tonnes. Ending stocks of the major durum exporters dropped by 54 per cent to 2.3 million tonnes in 2006-07. The drop in world supplies helped maintain strong prices through the year.

Barley

The IGC estimates 2006-07 world barley production at 138.4 million tonnes, which is slightly lower than the 139 million tonnes produced in 2005-06. Canada's 2006-07 barley production was below the five-year average and the lowest production since drought reduced the 2002 crop. Barley prices remained strong throughout the year due to the tight world stock situation.

2. Large, high-quality crop for Canada

Canada's wheat production in 2006-07 was 25 million tonnes, slightly above the five-year average. Farmers were faced with a wet spring and in some areas of northeastern Saskatchewan they were unable to plant their crops. However, the growing season was hot, which lowered disease pressure and allowed for an early harvest. The quality of the western Canadian wheat crop was consistent and high-quality, with more than 85 per cent of the crop falling in the top two grades. Durum quality was also above long-term averages with more than 80 per cent of the crop falling into the top two grades.

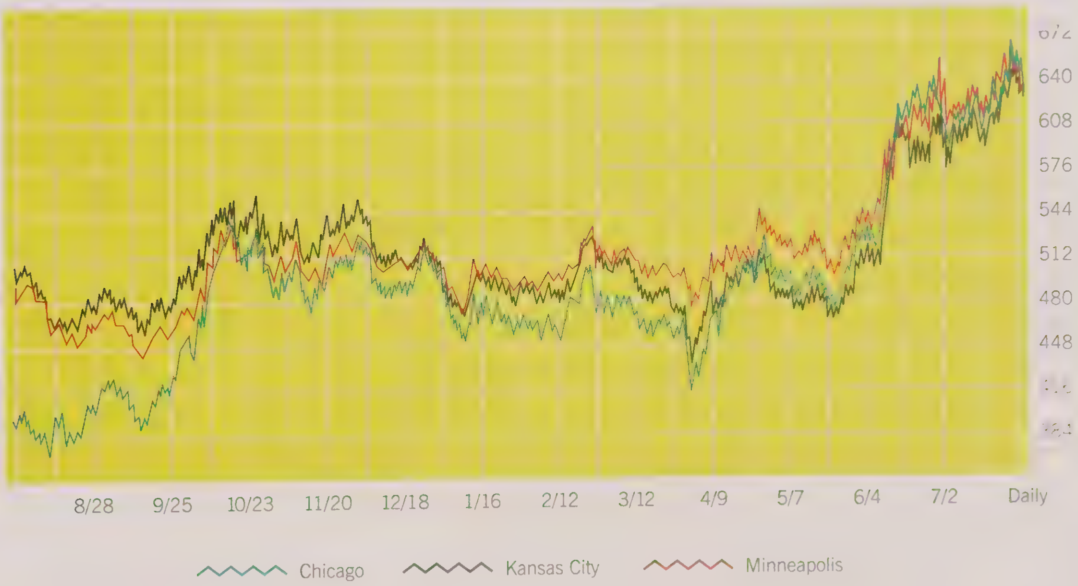
3. Commodity markets

Commodity markets traded sideways to lower for the first nine months of the 2006-07 crop year, but staged a large counter-seasonal rally during the last three months of the year. At the beginning of 2006-07 corn prices were the strongest of grains and oilseeds markets. Strong corn prices supported wheat values until corn peaked in February 2007. Strengthening wheat fundamentals resulted in an appreciation of wheat prices during June and July. World wheat production potential for the upcoming crop year declined rapidly as a frost occurred in the U.S., rains delayed the European harvest and Eastern Europe suffered from drought. These factors caused futures market prices to increase significantly through the last quarter of the 2006-07 marketing year.

Chicago wheat futures saw the largest price gain of U.S. wheat futures during the year. By the end of the 2006-07 Chicago wheat futures had surpassed Kansas City wheat and peaked at the same level as Minneapolis wheat. During the 2006-07 crop year Chicago wheat traded at a low of $3.73 per bushel at the beginning of August 2006 and a high of $6.41 per bushel at the end of July 2007. Minneapolis wheat futures traded at a low of $4.30 per bushel in mid-September 2006 and a high of $6.41 per bushel at the end of July 2007. Finally, Kansas City wheat futures traded at a low of $4.33 per bushel at the beginning of April 2007 and a high of $6.29 per bushel at the end of July 2007. The price of corn reached record levels at the end of February 2007, peaking at $4.49 per bushel. The graph below shows the price of Chicago, Kansas City and Minneapolis wheat throughout the 2006-07 crop year.

The durum wheat market also rose in value throughout 2006-07. The lowest durum production in the past five years, coupled with strong world demand for durum, pushed the price of durum up throughout the 2006-07 crop year. World ending stocks of durum tightened significantly.

U.S. 2006-07 wheat futures [nearby Chicago, Kansas and Minneapolis]



4. Strong Canadian dollar and Euro

The U.S. dollar continued its depreciation in 2006-07 against most major currencies, including the Canadian dollar. Strong commodity prices, a cooling U.S. economy, a strong Canadian economy and rising Canadian interest rates pushed the Canadian dollar to 30-year highs against the U.S. dollar as we moved into the second quarter of 2007. Merger and acquisition activity also ensured demand for the Canadian dollar remained high.

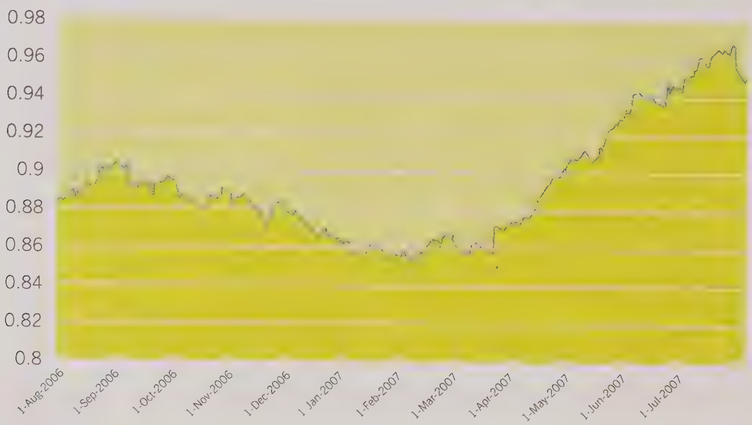
Because most grain sold by the CWB is priced directly in U.S. dollars, the soaring Canadian dollar continued to negatively affect returns. This continued a trend farmers have had to contend with since the beginning of 2003.

The graph below illustrates the Canadian dollar value versus the U.S. dollar over the 2006-07 crop year.

Likewise, a strong European economy and rising European interest rates pushed the Euro to record highs in 2006-07. The rising value of the Euro versus the U.S. dollar has had an indirect impact on pool returns by making European exports priced in Euros more expensive on the export market as compared to those of other origins, such as the United States. The graph below shows the Euro value versus the U.S. dollar over the 2006-07 crop year.

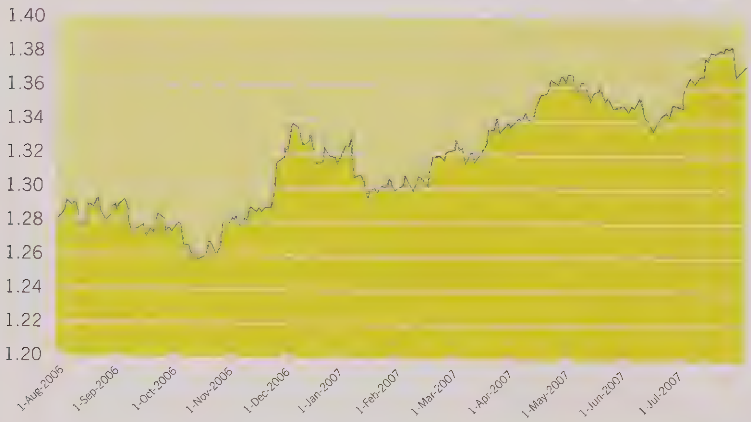
Bank of Canada USD/CAD noon rate

Source: Bank of Canada



EUR/USD closing rate

Source: Reuters



5. High ocean freight rates

Ocean freight rates increased significantly over the year, reaching record levels. At the beginning of the 2006-07 crop year the freight rate index was 2,916 and by the end of the crop year the index was 7,253. A couple of factors led to this increase. One factor was the strong Chinese economy, which with the 2008 Olympic Games quickly approaching, resulted in increased demand for iron ore and other commodities. Another factor was that for a period of time in 2007, vessels were congested in Australian ports waiting to load coal, which resulted in fewer vessels available to haul other commodities. Strong demand by the grains and oilseeds markets also added to the high demand for ocean freight.

MEASURING SUCCESS

In October 2007, the CWB's board reviewed the corporate performance measures (CPM) results for 2006-07. The organization measures and monitors a set of key indicators on an annual basis. These include: percentage of grain marketed; sales price comparison; contribution from other revenue sources; and net demurrage/despatch. Each target is based upon consultations with staff, an analysis of historical trends, consideration of future trends; and input from senior management. It also undergoes a review by the board of directors. The individual 2006-07 targets and the Corporation's performance for the above measures are summarized below.

Measure	Target for 2006-07	Result for 2006-07
Percentage of grain marketed	Wheat – 100% Durum – 100% Designated barley – 100% Feed barley – 100%	Wheat – 100% Durum – 100% Designated barley – 100% Feed barley – 100%
Sales price comparison (Net per-tonne price spread realized by the CWB compared to competitors' values for wheat, durum and barley sales.)	Wheat – $4.10 Durum – $5.07 Designated barley – $7.62	Wheat – $6.00 Durum – $7.77 Designated barley – $13.45
Contribution from other revenue sources (Includes items such as net interest earnings from rescheduled receivables, discretionary commodity and foreign-exchange transactions, transportation earnings from tendering and railway terminal agreements.)	Total – $64.9 million	Total – ($48.7 million)*
Net demurrage/despatch	$4.5 million net despatch	$4.1 million net despatch

* In 2006-07, contributions from other revenue sources resulted in a net reduction of $48.7 million. This negative amount includes the results from commodity trading activity that occurred within the wheat pool pricing model.

The Wheat Pool Pricing Model establishes the pace for pricing the wheat pool. This pace is denoted as the target pricing pace. Pricing within the model is a combination of actual cash sales activity and derivative trades. Pricing more or less than the daily "target" amount is regarded as discretionary trading activity. Daily sales and derivative transactions are benchmarked to the current futures market prices at the end of each day. In a rising market, as was the case in the summer and fall of 2007, results will be negative if the actual amount of wheat priced exceeded the amount to be priced established by the target pricing pace. Tonnage priced at the earlier lower price levels will produce negative results when those positions are closed out at market prices above the level at which they were initiated.

Since the end of May 2007, wheat fundamentals have reflected a tighter world wheat market with strong consumer demand for wheat. Since that time, world wheat prices have risen to the highest levels in history. Nearby wheat futures prices have risen from approximately $5 per bushel at the end of May to approximately $7 at the end of August. In September, futures prices reached values in excess of $ 9.25 per bushel in all of the U.S. futures markets.

THE WHEAT POOL

		2006-07		2005-06		Incr (Decr)
Receipts (tonnes)		15 516 550		11 971 249		3 545 301
Revenue (000s)	$	3,540,904	$	2,237,944	$	1 302 960
Revenue (per tonne)	$	228.20	$	186.94	$	41.26
Direct costs		26.30		22.05		4.25
Net revenue from operations		201.90		164.89		37.01
Other income		9.42		8.05		1.37
Net interest earnings		1.44		2.14		(0.70)
Administrative expenses		(3.14)		(3.73)		(0.59)
Grain industry organizations		(0.09)		(0.11)		(0.02)
Earnings for distribution	$	209.53	$	171.24	$	38.29

The strategy

The CWB manages marketing risk and price volatility by pricing wheat throughout the year, while matching logistical capacity with producer delivery requirements and customer buying patterns. The CWB employs an integrated approach to sales and risk management for the wheat pool, resulting in pricing encompassing the entire period from seeding to the following harvest. New crop shipments to customers increase as harvested grain becomes available and near completion as the following harvest starts to move through the handling system. This approach also allows for the flexibility to take advantage of market opportunities that arise over the course of the year and provides continuity of supply to Western Canada's core milling wheat customers. The customer mix was structured to maximize revenue both in the short and medium term, subject to logistical opportunities, market conditions and Western Canada's wheat supply.

Western Canada's non-durum wheat production in 2006-07 was 22.4 million tonnes, slightly above the five-year average. The quality of the wheat crop was above average, with more than 85 per cent of the crop falling in the top two grades. Protein levels were also up from the previous year although below the longer-term averages. With the high grade profile, higher protein and overall high quality, the strategy focused on maximizing sales in markets where those quality attributes commanded a premium.

The higher quality of the 2006 wheat crop allowed us to increase our shipments and market share to a number of customers, particularly in Europe and the U.S. where sales had been limited in recent years as a result of the lower grade profile and protein content of wheat produced in Western Canada. At the same time, largely as a result of the tight world wheat supply, the price spread between higher and lower quality wheat narrowed significantly over the marketing year. While our longer term core customers maintained their focus on quality, there were increased opportunities to market lower grades and lower protein wheat to a number of markets at very good price levels.

Producer receipts

Producer receipts of all non-durum wheat totalled 15.52 million tonnes, an increase from 11.97 million tonnes the previous year. This increase can be attributed to the higher production and an improved grade pattern for the 2006 crop relative to the previous year. Deliveries were accepted into the wheat pool until September 4, 2007.

Delivery opportunities for wheat varied according to contract series, grade and class. A delivery contract is a binding agreement between a farmer and the CWB. It specifies the type, grade and quantity of grain the farmer wants to deliver. The farmer has three opportunities to sign a wheat delivery contract: Series A by October 31; Series B by January 31; and Series C by May 31. The CWB announces an acceptance level after it has assessed the amount of grain offered under all contracts and the market demand for that grain.

All Series A wheat was accepted at 100 per cent, with the exception of Nos. 1 and 2 CWRS wheat, which were accepted at 80 per cent. The last 20 per cent was rolled over into Series B contracts. Series B and Series C wheat were accepted at 100 per cent for all contracts.

2006-07 Delivery acceptance

	Acceptance	% Accepted
Series A	Acceptance for all wheat with the following exceptions:	100%
	Nos. 1 and 2 Canada Western Red Spring (CWRS)	80%
Series B	Call acceptance for all wheat:	100%
Series C	Call acceptance for all wheat:	100%

Canada Western Red Winter (CWRW) wheat was the first product called, followed by CWRS, Canada Prairie Spring Red (CPSR) wheat and then the other wheat classes. These calls reflected significant sales of CWRW, CPSR and lower grades of CWRS in the fall period. These contract programs saw terminations mid-year, in an effort to encourage deliveries of those classes into the system to meet sales commitments. Because of the stronger sales of the above classes and limited system capacity through this period, strong CWRS sales did not begin until December/January. This sales pattern resulted in delayed calls of higher grades of CWRS contracts until mid-November. Deliveries of Canada Western Feed (CW Feed) were secured through seven Guaranteed Delivery Contracts (GDCs), which match farmer deliveries to specific sales.

2006-07 Delivery calls

Class called	Call period	Call volume
Series A Nos. 1 and 2 CWRS	March	80%
Series A No. 3 CWRS	November	100%
Series A CPSR	October	100%
Series A CPSW	January	100%
Series A CWES*	February	100%
Series A CWRW	October	100%
Series A CWSWS**	March	100%
Series B – all classes	May	100%
Series C – all classes	June	100%

* Canada Western Extra Strong wheat

** Canada Western Soft White Spring wheat

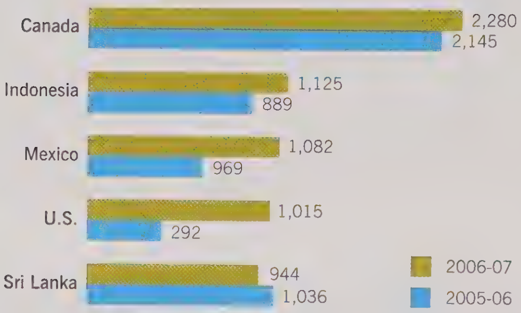
The revenue

The domestic market continued to be our single largest wheat market in 2006-07, accounting for 2.3 million tonnes of shipments. A total of 12.9 million tonnes of wheat were shipped to offshore markets in 2006-07, compared to 10.1 million tonnes in 2005-06. Our second-largest wheat customer was Indonesia, with shipments of over 1.12 million tonnes of wheat compared to just under 1 million tonnes in 2005-06.

Mexico and the U.S. were our next largest markets with shipments totalling 1.08 million tonnes and 1.02 million tonnes respectively. The high-quality CWRS crop supported a significant increase in wheat shipments to U.S. customers during 2006-07, up from 292 000 tonnes the previous year. Sri Lanka at 944 000 tonnes made it into the top five volume export customers.

Largest-volume wheat customers

(2006-07 and 2005-06 sales in 000s tonnes)



Total revenue in the wheat pool was $3.5 billion on 15.5 million tonnes of receipts. This represented an average gross revenue of $228.20 per tonne, up $41.26 from the average of $186.94 per tonne the previous year. As in the previous year, a strengthening Canadian dollar versus the U.S. dollar over the course of the year reduced the Canadian dollar value of sales.

The final pool return for No. 1 CWRS with 13.5 per cent protein (net of all costs) was $212.89 per tonne in store Vancouver/St. Lawrence, compared to $195.14 per tonne a year ago. The protein spread between 11.5 per cent and 13.5 per cent was $7.24 per tonne, compared to $15.50 per tonne the previous year, due to abundant supplies of high-grade, high-protein North American milling wheat. The final pool returns for No. 3 CWRS and 2 CPSR were $196.32 and $185.90 per tonne respectively, compared to $152.79 and $137.01 per tonne respectively, in 2005-06.

Direct costs increased $4.25 per tonne. Freight expenses were the main contributor to this amount as a result of increased sales into the U.S. market following the lifting of the U.S. tariff on CWRS wheat. Ocean freight rates also increased significantly over the course of the year as a result of heavy demand for freight by China and vessel delays in Australia. In the country system, the overall high quality of the crop resulted in lower inventory adjustments (fewer net demotions), contributing to the increase in direct costs.

The net result is that net revenue from operations was $201.90 per tonne, up $37.01 from the previous year.

Other income of $9.42 per tonne relates to the recovery of charges deducted by the CWB's agents. Recovery of charges increased $1.38 per tonne as there was greater movement into the U.S. where the Corporation is responsible for freight charges and greater tonnage in the Thunder Bay and U.S. catchment zones attracting freight adjustment costs.

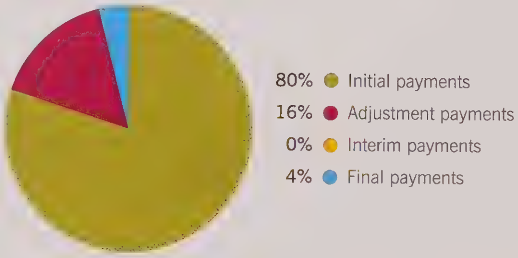
Distribution of earnings

The average sales proceeds available for distribution increased 22 per cent or $38.29, to $209.53 per tonne. This represents $3.3 billion. Of the $3.3 billion, $2.4 billion was returned to pool participants, with 96 per cent approved by July 27, 2007 in the form of initial and adjustment payments. The wheat pool had no interim payment.

Just under $705 million of sales returns were paid from the wheat pool to the PPO programs, representing the return on the specific grades and classes of wheat delivered under the FPCs and BPCs. The payment options in turn paid farmers at the respective contract price.

Earnings distributed to farmers

Wheat 2006-07



THE DURUM POOL

		2006-07		2005-06		Incr (Decr)
Receipts (tonnes)		3 982 710		4 308 906		(326 196)
Revenue (000s)	$	1,019,368	$	864,199		155,169
Revenue (per tonne)	$	255.95	$	200.56	$	55.39
Direct costs		38.28		33.76		4.52
Net revenue from operations		217.67		166.80		50.87
Other income		6.23		5.02		1.21
Net interest earnings		0.93		1.31		(0.38)
Administrative expenses		(3.14)		(3.73)		(0.59)
Grain industry organizations		(0.09)		(0.11)		(0.02)
Earnings for distribution	$	221.60	$	169.29	$	52.31

The strategy

The area planted to durum was down and yields in Western Canada were below average in 2006 due to drier than normal growing conditions. Durum production fell to 3.3 million tonnes in 2006-07 compared to 5.9 million tonnes the year before. As with wheat, the durum crop had a very high grade pattern with over 80 per cent falling into the top two grades. The high grade pattern and high protein levels of the crop were important factors in our overall strategy for marketing the crop.

Canadian durum exports always represent a very large proportion of total world durum trade and the approach that is taken to moving Canadian durum into the world market can have a significant impact on overall price structure and farmer returns. In several years where world supplies were high and demand weak, our strategy has been to market as much durum as possible without causing a collapse in the price structure. This was a prudent strategy given our dominance in world durum trade but has resulted in higher carry-out of inventory in Canada. In 2006-07 with the world supply demand balance tight and the balanced quality of our durum supply, there were opportunities to increase the export volume significantly while working to move the price structure higher.

Our approach to marketing the durum crop involves ranking customer sales opportunities based on return and quality requirements, assessing their volume and timing of demand and then allocating available supplies and logistical capacity against those sales opportunities to maximize the return to farm. The job of the marketing and logistics staff is to work with farmers and industry to carry out the strategy. While the 2006 crop grade pattern was high, there was also a large carry-in of predominantly lower grade and protein durum which gave us a good product mix to match against demand. The tighter world supply demand balance allowed us to push up the price for lower grades to those customers that needed good quality durum but not necessarily No. 1 Canada Western Amber Durum (CWAD). At the same time, the supply of higher grade and higher protein was sufficient to facilitate targeting increased sales into the higher-quality market segment.

The result was record durum shipments during the 2006-07 crop year, opportunities for farmers to deliver all their durum if they wished and increased durum prices over the previous pool year.

Producer receipts

Producer receipts of durum wheat totalled 3.98 million tonnes, down from 4.31 million tonnes the previous year. This decrease can be attributed to the drop in durum production from the previous year. Deliveries were accepted into the durum pool up until September 4, 2007.

Durum acceptance varied by contract series and market potential. A delivery contract is a binding agreement between a farmer and the CWB. It specifies the type, grade and quantity of grain the farmer wants to deliver. The farmer has two opportunities to sign up a durum delivery contract: Series A by October 31; and Series B by April 30.

The CWB announces an acceptance level after it has assessed the amount of grain offered under all contracts and the market demand for that grain.

Series A Nos. 1 and 2 CWAD was accepted at 80 per cent. The last 20 per cent was rolled over into Series B contracts. Series A No. 3 CWAD was accepted at 100 per cent. All Series B durum was accepted at 100 per cent.

2006-07 Delivery acceptance

	Acceptance	% Accepted
Series A	Nos. 1 and 2 Canada Western Amber Durum (CWAD):	80%
	No. 3 Canada Western Amber Durum (CWAD):	100%
Series B	Call acceptance for all durum:	100%

Calls on CWAD contracts were evenly spaced throughout the year, reflecting a consistent sales pace. There were no terminations before March. The strong sales at the end of the year required a GDC on Nos. 1, 2 and 3 CWAD to source additional supplies of higher grade durum. Nos. 4 and 5 CWAD were sourced through a series of seven GDCs, which match farmer deliveries to specific sales.

2006-07 Delivery calls

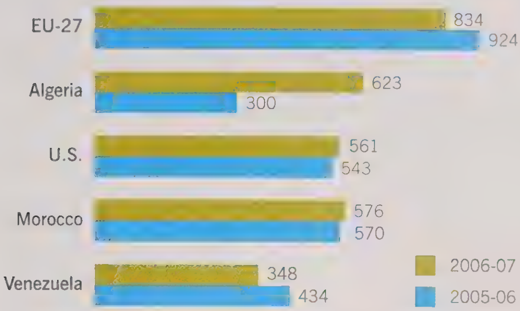
Class called	Call period	Call volume
Series A Nos. 1 and 2 CWAD	February	80%
Series A No. 3 CWAD	January	100%
Series B – all classes	May	100%

The revenue

Export markets accounted for 3.73 million tonnes of durum shipments, compared to 3.98 million tonnes in the 2005-06 pool. Pool year shipments to Algeria were strong at 623 000 tonnes. The EU-27 was the single largest CWB customer for durum, with pool shipments of 834 000 tonnes. Strong demand from U.S. customers for high-quality Canadian durum saw shipments to that market reach 561 000 tonnes. Shipments to Morocco, where our customers also want high-quality Canadian durum, hit 576 000 tonnes. Rounding out the top five markets by volume was Venezuela at 348 000 tonnes. Although shipments to Canadian domestic processors from the 2006-07 pool were down at 253 000 tonnes, 2006-07 crop year shipments to domestic processors actually increased from 2005-06 (295 000 tonnes) to 316 000 tonnes demonstrating continued growth.

Largest-volume durum customers

(2006-07 and 2005-06 sales in 000s tonnes)



Gross revenues in the durum pool amounted to $1.02 billion on 3.98 million tonnes of receipts for an average of $255.95 per tonne, up from the average of $200.56 per tonne in 2005-06.

The stronger Canadian dollar versus the U.S. dollar (compared to 2005-06) meant that the average price per tonne was pressured lower again this pool year. Final pool returns for No. 1 CWAD with 13 per cent protein were $225.13 per tonne in store Vancouver/ St. Lawrence, up substantially from the 2005-06 return of $193.33 per tonne. The final pool return for No. 3 CWAD was $203.85 per tonne versus $152.72 per tonne in 2005-06.

Direct costs increased $4.52 per tonne over the prior year. Freight and terminal handling were the major contributors to the increase as a greater number of tonnes were moved through the eastern ports and seaway. The other important factor was other grain purchases. A greater volume of producer receipts from 2005-06 was accepted and accounted in 2006-07 as compared to the previous year.

The net result is that net revenue from operations was $217.67 per tonne, up $50.87 over the prior year.

Other income increased $1.21 per tonne. Recovery of charges from freight contributed to this increase as there were more sales from country position. As well, customers had more difficulty ensuring timely arrival of vessels for loading within the shipping periods and hence incurred charges for late loading.

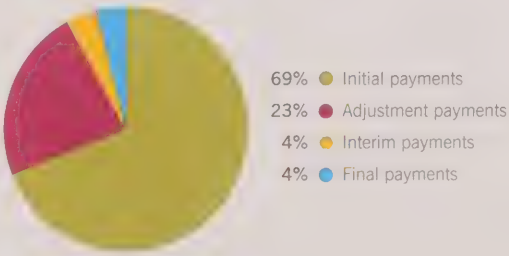
Distribution of earnings

The average sales proceeds available for distribution increased 31 per cent or $52.31 per tonne, to $221.60, totalling $883 million. Of the $883 million, $882.4 million was returned to pool participants, with 92 per cent approved by June 14, 2007 in the form of initial and adjustment payments. Combined interim and final payments representing the balance were made prior to the end of December.

For producer receipts delivered under the PPO programs, $164 million of sales returns were paid from the durum pool to the PPO programs, representing the return on the specific grades and classes of durum delivered under the FPCs and BPCs. The payment options in turn paid farmers at the respective contract price.

Earnings distributed to farmers

Durum 2006-07



The stronger Canadian dollar versus the U.S. dollar (compared to 2005-06) meant that the average price per tonne was pressured lower again this pool year.

THE DESIGNATED BARLEY POOL

	2006-07	2005-06	Incr (Decr)
Receipts (tonnes)	**1 851 337**	1 464 682	386 655
Revenue (000s)	**$ 354,641**	$ 248,361	$ 106,280
Revenue (per tonne)	**$ 191.56**	$ 169.57	$ 21.99
Direct costs	**19.78**	24.82	(5.04)
Net revenue from operations	**171.78**	144.75	27.03
Other income	**24.73**	21.05	3.68
Net interest earnings	**1.17**	0.91	0.26
Administrative expenses	**(3.14)**	(3.73)	(0.59)
Grain industry organizations	**(0.13)**	(0.16)	(0.03)
Earnings for distribution	**$ 194.41**	$ 162.82	$ 31.59

The strategy

End-users of malting barley have increasingly moved to a business model where they forward-price a significant volume of malt. In the past, most sales for export malt were priced in late September to mid-October. One effect of this past market practice was that most malt export sales made by the Canadian malting industry were not negotiated until after European barley crops were harvested and the availability of malting barley was known, and the outlook for Australian barley production was also relatively clear. As a result of the move to earlier malt export sales, and a desire by farmers to deliver malting barley early in the crop year, a larger portion of the designated barley pool is priced prior to harvest than was the case historically. The strategy for these early malting barley sales is to sell at prices that offer good returns relative to expectations for a normal crop in the approaching production season. Additional sales made later, after production quantity and quality are known, may be at significantly different market prices.

Warm, dry conditions in Canada during harvesting resulted in above-average malting barley selection rates, increasing the volume of barley that met malting standards well above the levels recorded in the previous two years. Given the quality problems that occurred with the European barley crop, the market's expectation was that there would be an opportunity for Australia and Canada to increase market share short-term in the Chinese market. The CWB expected to trade a sizeable volume of malting barley to China in January 2008 and forward, taking advantage of high international malting barley prices. However, Chinese demand dropped sharply due to high international malting barley prices, and Chinese maltsters maximized the use of Chinese barley for malting. Attracting deliveries against existing sales also became a problem late in the year with a rising feed market relative to the pooled malting barley value, and in anticipation of a change in market structure post August 1, 2007.

Producer receipts

Total receipts in the designated barley pool were 1.85 million tonnes, compared to 1.46 million tonnes in 2005-06, with the primary reason for the increase in deliveries attributable to a significant improvement in overall malting barley quality. However, strong domestic barley market prices driven by the tight feed grain supply situation in Western Canada created an incentive for some producers to deliver barley that met malting standards into feed channels, limiting pool size. Anticipation of an open market effective August 1, 2007 was another factor that influenced the malting barley sales program, as many producers decided to wait to see what the ramifications of an open market might be. All of these factors led to a designated barley pool size that was smaller than originally forecast, resulting in a heavier weighting of the earlier sales.

The pace of deliveries was more heavily weighted towards the first half of the crop year. Marketing opportunities were relatively limited during the latter half of the year in part due to the reluctance of some buyers to pay historically high prices. Deliveries were accepted into the designated barley pool until September 4, 2007.

The revenue

Malting barley sales to the domestic market amounted to 975 000 tonnes, compared to 749 000 tonnes in 2005-06, as malting plants ran near capacity thanks primarily to an improvement in malting barley quality. China was the single largest export market for malting barley, although sales declined from 404 000 tonnes in 2005-06 to 395 000 tonnes. Given the sharp increase in global malting barley values during the year, Chinese maltsters utilized a much higher than normal proportion of domestic barley, thereby reducing reliance on imports from Australia and Canada. The export program was limited later in the year due, in part, to a sharp increase in international malting barley values, which in turn forced end-users to consider options such as reducing production, altering product quality, or using other adjuncts. Also, while the hot, dry finish to the 2006 growing season reduced wheat and barley production, exceptional harvest weather resulted in limited volumes of feed-quality wheat. This translated into a very strong domestic feed market later in the 2006-07 marketing year.

Sales volume to the U.S. increased sharply from 67 000 tonnes to 282 000 tonnes, given the dramatic improvement in Canadian malting barley quality over 2005-06 as well as strong import demand for six-row malting barley in particular.

The federal government's decision to remove barley from the CWB single desk in a way that was contrary to the provisions of *The Act* created uncertainty for customers as to whether the barley they had contracted would in fact be delivered. Most malting barley customers sell their malt at approximately the same time as they contract for a barley purchase from the CWB. The CWB is able to forward-sell under the single desk, even without specific farmer sign-up in advance, because it can be certain that a large volume of malting barley will be delivered to the CWB. If the single desk were to be removed, the malting barley deliveries that the CWB had counted on might be delivered elsewhere. This created risk for customers who had sold their malt forward, particularly if market prices increased in the interim. This kind of risk can be dealt with in the longer run with other types of farmer contracts, but the short notice regarding potential regulatory change created significant anxiety among CWB customers.

Gross returns in the designated barley pool were \$354.6 million on 1.85 million tonnes of receipts, translating into average gross revenue of \$191.56 per tonne versus \$169.57 per tonne in 2005-06. The restricted availability of global malting barley supplies, due to quality problems in Europe and drought in Australia, pushed returns higher

Warm, dry conditions in Canada during harvesting resulted in above-average malting barley selection rates.

The final pool return for Special Select two-row barley in store Vancouver/St. Lawrence was $202.02 per tonne, compared to $168.45 per tonne a year earlier. The final pool return for Special Select six-row barley was $188.12 per tonne, compared to $160.87 per tonne in 2005-06. The spread between No. 1 CW Feed and Special Select two-row barley narrowed from $52 per tonne in 2005-06 to $25.51 per tonne.

Largest-volume designated barley customers

(2006-07 and 2005-06 sales in 000s tonnes)

Direct costs decreased $5.04 per tonne. Inventory storage costs contributed to the decrease, reflecting a more fluid movement of grain through the system and average lower inventory levels in the system. As well, significantly fewer late 2005-06 producer receipts into the 2006-07 pool resulted in a decrease in other grain purchases.

The net result is that net revenue from operations was $171.78 per tonne, a $27.03 increase over the prior year.

Other income increased $3.68 per tonne. Recovery of freight charges increased due to a greater proportion of sales that were sold basis a country position and freight collected by grain companies being subsequently recovered by the pool account. In addition, a greater proportion of the pool size was from the Thunder Bay and U.S. catchment zones, which attract an additional cost to move the grain that is collected from the grain companies.

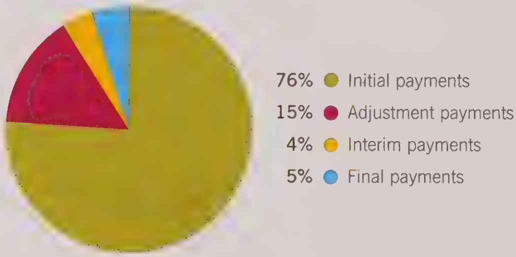
Distribution of earnings

The average sales proceeds available for distribution increased 19 per cent or $31.59 per tonne, to $194.41, totalling $360 million. Of the $360 million, $356 million was returned to pool participants, with 91 per cent approved by July 27, 2007 in the form of initial and adjustment payments. Combined interim and final payments representing the balance were made prior to the end of December.

Just under $3.8 million of sales returns were paid from the designated barley pool to the PPO programs, representing the return on the specific grades and classes of durum delivered under the FPCs and BPCs. The payment options in turn paid farmers at the respective contract price.

Earnings distributed to farmers

Designated barley 2006-07



THE FEED BARLEY POOL A

		2006-07		2005-06		Incr (Decr)
Receipts (tonnes)		147 513		915 783		(768 270)
Revenue (000s)	$	30,013	$	127,151	$	(97,138)
Revenue (per tonne)	$	203.46	$	138.84	$	64.62
Direct costs		16.38		9.08		7.30
Net revenue from operations		187.08		129.76		57.32
Other income		0.86		0.32		0.54
Net interest earnings		8.14		2.46		5.68
Administrative expenses		(2.89)		(3.52)		(0.63)
Grain industry organizations		(0.09)		(0.09)		
Earnings for distribution	$	193.10	$	128.93	$	64.17

The strategy

Despite a strong domestic feed barley market, farmer interest in marketing feed barley through the CWB increased during the second half of the feed barley A pooling period, given strong international feed barley fundamentals. Production problems in key exporting regions due to drought, most notably Australia, the U.S. and parts of Western Canada, reduced export competition.

Western Canadian wheat quality was well above average, limiting the volume of feed wheat produced. Western Canadian barley production fell by 20 per cent to 9.3 million tonnes, as farmers reduced planted area and hot, dry weather later in the growing season reduced yield prospects. As a result, domestic feed grain supplies were tight. Furthermore, U.S. corn ending stocks declined to low levels as production declined to the lowest level since 2003-04 and domestic demand expanded dramatically due to the expansion of the U.S. ethanol market. The U.S. corn situation served to underpin North American feed grain prices through the fall of 2006 and into 2007.

The CWB's feed barley marketing strategy was to focus on marketing opportunities in the Japanese market.

Producer receipts

Total feed barley receipts for pool A were 147 513 tonnes. As has been the case for some time, feed barley was originated using GDCs, in order to efficiently match the execution of sales commitments with origination. Deliveries were accepted into pool A up until February 7, 2007.

The revenue

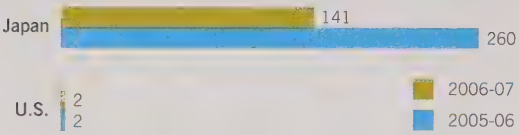
Gross revenue in feed barley pool A was $30 million on 147 513 tonnes of receipts, representing an average of $203.46 per tonne, versus $138.84 per tonne in the previous year. The final pool return for No. 1 CW Feed barley in store Vancouver/St. Lawrence was $187.42 per tonne, compared to $130.20 per tonne in 2005-06.

Feed barley marketing activities were focused on the Japanese market, as returns in other importing regions were less attractive and export competition was relatively limited. Feed barley sales to Japan amounted to 141 000 tonnes.

Western Canadian wheat quality was well above average, limiting the volume of feed wheat produced.

Largest-volume feed barley A customers

(2006-07 and 2005-06 sales in 000s tonnes)



Direct costs increased $7.30 per tonne over the previous year. Although the pool was smaller than in the previous year, a greater proportion of tonnes sold attracted fobbing costs, resulting in the higher rate per tonne. Increases in other direct expenses reflect accrual differences. These are offset by a proportionate allocation of interest earnings prior to any net interest transfer to the Contingency Fund. Increases were offset by a decrease in other grain purchases due to fewer 2005-06 late producer receipts entering the 2006-07 pool and a terminal audit settlement in our favour.

The net result is that net revenue from operations was $187.08 per tonne, up $57.32 over the prior year.

Other income increased $0.54 per tonne. Barley shipped at more favourable rates, resulting in reduced actual freight costs.

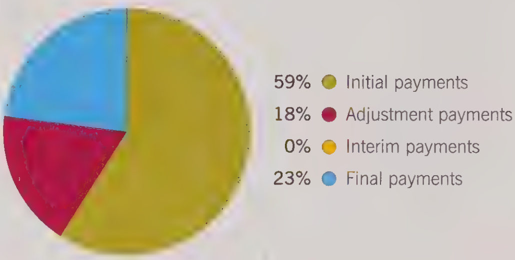
Distribution of earnings

The average sales proceeds available for distribution increased 50 per cent or $64.17 per tonne, to $193.10, totalling $28.5 million. Of the $28.5 million, $25.3 million was returned to pool participants, with 77 per cent approved by December 21, 2006 in the form of initial and adjustment payments.

Just under $2.3 million of sales returns were paid from the feed barley A pool to the PPO programs, representing the return on the specific grades and classes of durum delivered under the FPCs and BPCs. The payment options in turn paid farmers at the respective contract price.

Earnings distributed to farmers

Feed barley pool A 2006-07



THE FEED BARLEY POOL B

		2006-07		2005-06		Incr (Decr)
Receipts (tonnes)		19 809		127 464		(107 655)
Revenue (000s)	$	3,658	$	20,682	$	(17,024)
Revenue (per tonne)	$	184.64	$	162.26	$	22.38
Direct costs		27.01		32.57		(5.56)
Net revenue from operations		157.63		129.69		27.94
Other income		50.17		0.98		49.19
Net interest earnings		55.61		10.60		45.01
Administrative expenses		(3.14)		(3.73)		(0.59)
Grain industry organizations		(0.09)		(0.11)		(0.02)
Earnings for distribution	$	260.18	$	137.43	$	122.75

The strategy

For most of the duration of the barley B pool, farmer interest in marketing feed barley supplies through the CWB was limited, as returns in the domestic market were more attractive relative to the offshore market. However, during the summer months, global feed barley values strengthened due to supply constraints in key exporting regions, including Australia and Europe.

Although pool volume was limited, the CWB's feed barley marketing strategy was to take advantage of niche marketing opportunities as they arose.

Producer receipts

Total feed barley receipts for pool B were 19 809 tonnes, as farmer interest in marketing feed barley to the offshore market was limited. Deliveries were accepted into pool B up until September 4, 2007.

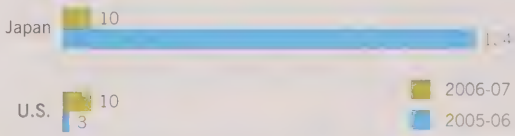
The revenue

Gross revenue in feed barley pool B was $3.7 million on 19 809 tonnes of receipts, representing an average of $184.64 per tonne, versus $162.26 per tonne in the previous year. The final pool return for No. 1 CW Feed barley in store Vancouver/St. Lawrence was $210.14 per tonne, compared to $131.68 per tonne in 2005-06.

Feed barley marketing activities were focused on the Japanese market, as returns in other importing regions were less attractive. Feed barley sales to Japan amounted to 10 290 tonnes.

Largest-volume feed barley B customers

(2006-07 and 2005-06 sales in 000s tonnes)



Direct costs decreased $5.56 per tonne. Terminal handling expenses decreased as a result of an increase in tonnes sold on an in-store basis compared to the previous year. As well, other grain purchases were lower due to fewer late producer receipts delivered into the 2006-07 crop pool. Offsetting these decreases were increases in storage costs as a result of longer storage periods at terminal position, and other direct expenses which reflect accrual differences. The accrual differences were offset by a proportionate allocation of interest earnings prior to any net interest transfer to the Contingency Fund.

The result is that net revenue from operations was $3.1 million, down $13.4 million from the prior year.

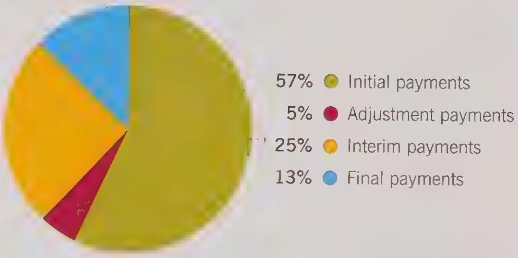
Other income increased $49.19 per tonne. During the year, a prior year claim was settled in our favour. Consistent with the interest earnings allocation policy, this amount will be transferred to the Contingency Fund.

Distribution of earnings

The average sales proceeds available for distribution increased 89 per cent or $122.75 per tonne to $260.18, totalling $5.2 million. Of the $5.2 million, $4.2 million was returned to pool participants, with 62 per cent approved by June 25, 2007 in the form of initial and adjustment payments. Combined interim and final payments representing the balance were made prior to the end of December.

Earnings distributed to farmers

Feed barley pool B 2006-07



Feed barley marketing activities were focused on the Japanese market, as returns in other importing regions were less attractive.

INDIRECT INCOME AND EXPENSES

Net interest earnings

(dollar amounts in 000s)		2006-07		2005-06
Interest on credit sales				
Revenue on credit sales receivable	$	94,718	$	152,041
Expense on borrowings used to finance credit sales receivables		74,727		[illegible]
Net interest on credit sales		19,991		32,066
Interest revenue (expense) on pool account balances		1,043		(1,267)
Other interest				
Revenue		12,171		7,558
Expense		2,656		2,219
Net other interest revenue		9,515		5,339
Total net interest earnings	$	30,549	$	36,138

Net interest earnings of $30.5 million were largely due to the net interest earned on amounts owed to the CWB on credit grain sales made under the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). When the CWB sells grain on credit, it must borrow an equal amount to facilitate payments to farmers until the credit is repaid to the CWB. The CWB is able to borrow at interest rates lower than those rates received by the CWB from the credit customer. As a result, the CWB earns an interest "spread."

Net interest revenue has decreased in 2006-07, primarily as a result of a significant decline in outstanding balances. This included Russia prepaying its entire debt of $929 million, which represents the Canadian equivalent of $827 million in U.S. funds, in August 2006; and sizable repayments from Poland during the year. The impact was partially offset by an improved interest spread on the receivables.

The interest on the pool account balances has increased as a result of the net equity position of the pools being more favourable in the current crop year.

Other interest revenue from customers, which includes receipt of sales proceeds on non-credit sales, will fluctuate year-over-year, as the number of days outstanding on these arrangements will typically range between one and 10. The increase is driven by higher interest charges on regular sales plus higher average monthly balances on cash margin accounts, as a result of greater FPC sign-up and higher commodities values. Expenses, primarily from financing costs such as treasury fees and bank charges, make up the main portion of other interest expenses.

Administrative expenses

Administrative expenses increased $0.2 million or 0.3 per cent from the previous year to $72.1 million.

Human resources increased $1.9 million, reflecting the new variable pay program approved by the board of directors as well as merit increases and higher benefit costs. Professional fee increases were the result of legal challenges that the Corporation engaged in, as well as consulting costs for mandated or regulated initiatives such as access to information and new accounting standards. Outsource costs increased as there was greater demand from the supply chain transformation (SCT) project and a greater percentage of system development work that occurred during the year that was expensed. Decreases in travel and training reflect the focus of the Corporation on other corporate activities such as the SCT project. Finally, when the SCT project was initiated, it replaced certain system development projects that were in progress, resulting in a $2.4 million write down in the previous year. No additional write down was required in 2006-07.

Grain industry organizations

The CWB continued to provide support for organizations that benefit, both directly and indirectly, western Canadian grain farmers. During 2006-07, the CWB contributed $2 million to the operations of CIGI and the CMBTC. The CIGI and CMBTC play an integral role in the Corporation's marketing and product development strategies, by providing technical information and educational programs to customers.

Producer Payment Options (PPOs)

FINANCIAL RESULTS

Fixed Price Contract (FPC)
Basis Price Contract (BPC)
Daily Price Contract (DPC)

With very attractive values, the volume of tonnes delivered under the FPC/BPC/DPC programs was 3 421 406 tonnes compared to the prior year of 693 360 tonnes, an increase of over 390 per cent. See the chart below for details on the number of contracts, producers, and tonnes delivered.

Deliveries made under these programs are outside the pool accounts, with all pool returns (initial, interim and final payments) that otherwise would have been paid to farmers, being paid instead to these programs. This amounted to $704.6 million for wheat, $0.2 million for durum, $3.8 million for designated barley and $2.3 million for feed barley pool A. When other revenues (pricing damages) and program expenses (including net hedging results, interest and administration expenses) are accounted for, the programs generated a net loss of $39.9 million.

This loss is primarily attributable to wheat. One factor for the loss was tonnes moving to the new crop year given the attractive values for 2007-08. The other factor was that basis levels decreased throughout the year. This is not hedgeable using commodity markets. The 2005-06 crop year was a good quality crop and the expectation for the 2006-07 crop was similar. However, the quality of the 2006-07 crop turned out higher than expected and basis levels narrowed in. This change in basis levels occurred after much of the 2006-07 program was priced by producers, whereas the final pool return paid to the program would have captured the decrease and created losses in the program.

The DPC was a new contract introduced in 2005-06. It offers producers an opportunity to capture daily cash prices based on the U.S. market. A total of 501 366 tonnes was delivered to the program in 2006-07. Pool returns paid to this program were $104.3 million. After accounting for net hedging gains and pricing damages (offset by contracted values, interest and administrative expense), the program had a net deficit of $7.2 million.

(dollar amounts in 000s)	2006-07				2005-06			
Program statistics	**No. of contracts**	**No. of producers**	**Tonnes delivered**	**Net surplus (deficit)**	**No. of contracts**	**No. of producers**	**Tonnes delivered**	**Net surplus (deficit)**
Wheat	20,481	12,581	2 887 629	$ (33,395)	3,444	2,755	615 249	$ (5,912)
Wheat DPC	1,908	1,606	501 366	$ (7,231)	457	407	73 904	$ (935)
Durum	11	9	754	$ 21	16	15	2 658	$ (33)
Designated barley	112	98	19 813	$ 121	8	8	1 206	$ 19
Feed barley A	86	78	11 844	$ 556	10	10	343	$ 2
Feed barley B	No activity			$ –	No activity			$ –
Total			**3 421 406**	**$ (39,928)**			693 360	$ (6,859)

Early Payment Options (EPO)

Tonnes delivered to EPO were down in 2006-07 at 1 548 931 tonnes, compared to 2 658 147 tonnes in 2005-06. See the chart below for details on the number of contracts, producers, and tonnes delivered.

The EPO discount, charged to farmers for risk, time value of money and program administration costs, was $2.9 million (2005-06 – $3 million). After accounting for pricing damages charged for non-delivery, net interest expense and net hedging results, a net surplus of $1.3 million was generated.

Pre-delivery Top-up (PDT)

Wheat and durum growers who have taken a fall cash advance can apply for an additional $30 per tonne for their grain, to be paid prior to delivery. Participants are responsible for the costs of the program, including risk management, administration costs and time value of money. Repayments are received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. PDT payments of $6.8 million were issued to 387 farmers (compared to $5.9 million distributed to 323 farmers in 2005-06).

(dollar amounts in 000s)	2006-07					2005-06				
Program statistics	No. of contracts	No. of producers	Tonnes delivered		Net surplus (deficit)	No. of contracts	No. of producers	Tonnes delivered		Net surplus (deficit)
Wheat	6,029	4,668	806 287	$	487	7,106	6,044	1 080 124	$	(111)
Durum	1,072	768	199 272	$	244	1,986	1,683	402 084	$	149
Designated barley	2,231	1,943	400 621	$	378	1,727	1,421	295 244	$	121
Feed barley A	981	883	127 054	$	162	4,850	3,807	780 894	$	135
Feed barley B	165	153	15 697	$	32	903	832	99 801	$	(162)
Total			**1 548 931**	**$**	**1,303**			2 658 147	$	132

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk of being unable to meet corporate obligations. The CWB operates diversified debt issuance programs to meet daily cash requirements and also holds highly rated short-term investments to ensure that sufficient funds are available to meet debt obligations. Additionally, it maintains lines of credit with financial institutions to provide supplementary access to funds.

Cash flow – Sources and uses

Since all pool account earnings are distributed to farmers, operations are almost entirely financed by debt. During the year, cash from operations may also be available. The primary uses of funds are cash distributions to farmers, operational expenses and capital spending.

Cash provided by operations was $4.49 billion, up from the previous year. Investing activities contributed $1.37 billion, primarily due to credits receivable, regular scheduled repayments and prepayments. This also impacted financing activities as borrowing requirements declined.

The CWB issues adjustment and interim payments during the year. After all the accounting has been concluded, a final payment is issued to producers who delivered into the pool accounts. Total distributions to producers totalled $3.8 billion. Because the Corporation is typically in a net borrowing position, there is a zero net cash position at the end of the year.

The CWB believes that cash generated from operations supplemented by debt issued will be sufficient to meet our anticipated capital expenditures and other cash requirements in 2007-08.

Balance sheet

The Balance sheet of the Corporation was significantly affected by the prepayment of credit receivables over the course of the year. Over $1.3 billion of repayments and prepayments occurred. Offsetting this decrease is an increase in inventory and deferred and prepaid expenses, reflecting higher commodity prices. A new Balance sheet line called investments has been added to assets. Previously, investments were netted against borrowings.

During 2006-07, the Corporation received approval from the federal minister of finance to invest a portion of the Russian credit receivable prepaid in highly rated investments. This has contributed to the increase in investments. The large net decrease in assets had a direct effect on the borrowings, reducing them substantially.

Over the next five years, credit receivable repayments will result in significantly lower credits receivable and corresponding borrowing levels. They will also have the effect of lowering net interest earnings. The CWB estimates that net interest earnings will progressively decline to $3 million by 2011-12.

Debt instruments

Under *The Act* and with the approval of the federal minister of finance, the CWB is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness.

All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the minister of finance from the time of issuance to the date of maturity. Therefore, the credit ratings of these debt issues reflect the top credit quality of the federal government. Long-term and short-term ratings of the debt are currently as follows: Moody's Investors Service Senior Unsecured Ratings (Aaa/P-1), Standard & Poor's Ratings Group Issue Credit Ratings (AAA/A-1+) and Dominion Bond Rating Service Debt Ratings (AAA//R-1(high)).

The CWB borrows money to finance grain inventories, accounts receivable from credit sales and administrative and operating expenses and to administer the federal government's advance payment programs. It borrows in a variety of currencies, but mitigates currency risk by converting debt issued into either Canadian or U.S. dollars to match the assets being financed.

Multiple debt programs are managed to minimize borrowing costs and liquidity risk. Total debt outstanding ranged from $3 billion to $4 billion (Canadian dollar equivalent) in 2006-07. Debt programs include:

- Domestic commercial paper program (the "Wheat Board Note" program);
- U.S. commercial paper program;
- Euro commercial paper program;
- Euro medium-term note program; and
- Domestic medium-term note program.

Although the notes issued under the Euro medium-term note program have an original term to maturity of up to 15 years and are therefore considered a long-term debt for reporting purposes, many of these notes are redeemable by the CWB before maturity, due to embedded call features.

Net borrowings decreased from $4.3 billion at the 2005-06 year-end to $3.1 billion at the close of 2006-07. The decline is primarily due to the repayment of accounts receivable from credit sales.

Off-balance sheet arrangements

The CWB enters into off-balance sheet derivative instruments in the normal course of business. Derivative financial instruments are used to manage exposure to commodity price, interest-rate and foreign-exchange rate fluctuations. Only the Corporation's hedging activities are represented as off-balance sheet items.

The CWB uses derivative instruments on futures exchanges to manage the risk of adverse movements in the price of grain. It uses interest-rate swaps to manage the interest rates on its debt portfolio and to manage overall borrowing costs. It primarily uses foreign-exchange contracts to hedge currency exposure arising from grain sales and funding operations. These hedging activities are further discussed on page 61 under the "Market risk" heading of the financial risk management section of the MD&A.

Contingency Fund

The Act provides for the establishment of a contingency fund. The Contingency Fund can be populated through a variety of mechanisms, including the results of operations of the PPO programs or other sources of revenue received in the course of operations.

It is used to cover deficits or retain surpluses that may occur as a result of the operation of the PPO programs. It is also the repository for excess interest earnings from the barley pool. The amount that is transferred to the Contingency Fund is based on a formula, approved by the board of directors, that ensures that a fair amount of interest earnings is allocated to the barley pool and which mitigates the distorting effects of certain costs in years when pool volume is unusually low.

The Act requires that all revenue generated, less the cost of operations, be distributed through the pool accounts. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $60 million.

On June 7, 2007, the federal government made amendments to the CWB Regulations that would have resulted in an open market for barley effective August 1, 2007. This created uncertainty in the marketplace. The Corporation challenged the amendment and it was ruled illegal in the Federal Court on July 31, 2007. During this time period, opportunities presented themselves to trade barley on a non-pool basis, which the Corporation acted on. As a result, there were 5 906 tonnes of barley traded. Due to the limited number of transaction and hence commercial sensitivities, the profits from these transactions have been transferred directly to the Contingency Fund pursuant to Section 39.1 of *The Act*.

During the year, a $38.6 million net deficit was transferred to the Contingency Fund as a result of the PPO programs. Interest earnings on feed barley totalling $1.9 million were transferred to the Fund. Finally, the profits on the non-pool barley transactions totalling $0.08 million were transferred as well.

Financial risk management

The CWB seeks to minimize risks related to its financial operations. It actively manages exposures to financial risk and ensures adherence to approved corporate policies and risk-management guidelines.

Governance framework

Ongoing responsibilities for managing risk are articulated through board-approved policies, other related corporate policies, and government and regulatory agency requirements. Board and management supervision, accountability and a strong control culture are in place to manage financial risks.

The board of directors approves the risk tolerance of the Corporation and ensures a proper risk management framework is in place to effectively identify, assess and manage financial risk.

The Financial Risk Management Committee oversees the financial risk management operations. This committee establishes and recommends to the board of directors the financial risk management policies and procedures ensuring the policies are consistent with the goals and objectives of the Corporation and are in compliance with government and regulatory requirements. The Financial Risk Management Committee is chaired by the chief executive officer and includes the chief financial officer, chief operating officer and other senior management representatives involved in managing corporate risk.

Corporate Audit Services is responsible for ensuring that the financial risk-management operations are periodically audited.

Market risk

Market risk is the exposure to movements in the level or volatility of market prices that may adversely affect the Corporation's financial condition. The market risks we are exposed to include commodity, foreign-exchange and interest-rate risk.

Commodity-price risk is the exposure to reduced revenue due to adverse changes in commodity prices. Exchange-traded futures and option contracts are used to mitigate commodity-price risk inherent in the core business of the wheat pool.

The CWB's commodity risk-management program involves an integrated approach that combines sales activity with exchange-traded derivatives to manage risk of an adverse movement in the price of grain between the time the crop is produced and the time the crop is ultimately sold to customers. Exchange-traded derivatives are used to complement the selling activity to provide flexible pricing alternatives to customers, such as basis contracts, and to engage in discretionary pricing activity when appropriate.

Our operational risk-management philosophy encourages an environment of effective operational risk discipline.

The CWB also manages the commodity-price risk related to the various PPOs offered to Prairie farmers that provide pricing choices and cash flow alternatives.

Foreign-exchange risk is the exposure to changes in foreign-exchange rates that may adversely affect Canadian dollar returns. Sales are priced either directly or indirectly in U.S. dollars, resulting in exposure to foreign-exchange risk.

To manage foreign-exchange risk, the CWB hedges foreign-currency revenue values using derivative contracts to protect the expected Canadian dollar proceeds on sales contracts. An integrated approach is used, together with sales activity. In addition, foreign-exchange risk is managed as it relates to the various PPOs.

Interest-rate risk is the exposure to changes in market interest rates that may adversely affect net interest earnings. Interest-rate risk arises from the mismatch in term and interest rate re-pricing dates on interest-earning assets and interest-paying liabilities. This risk is managed by the CWB. The spread between the interest-earning assets and interest-paying liabilities represents net interest earnings, which are paid to farmers annually.

Credit risk

Credit risk is the risk of potential loss, should a counterparty fail to meet its contractual obligations. The Corporation is exposed to credit risk on non-guaranteed credit sales accounts receivable, as well as credit risk on investments and over-the-counter derivative transactions used to manage market risks. The CWB enters into master agreements with all counterparties to minimize credit, legal and settlement risk. It transacts only with highly rated counterparties who meet the requirements of our financial risk-management policies. These policies meet or exceed the minister of finance's credit policy guidelines.

The commodity futures and option contracts involve minimal credit risk, as the contracts are exchange-traded. The CWB manages our credit risk on futures and option contracts by dealing through exchanges, which require daily mark-to-market and settlement.

Accounts receivable from credit sales

The CWB sells grain under two government-guaranteed export credit programs: the CGSP and the ACF. Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see the Credit Grain Sales Program Financial Statement note 3.

Investments

The CWB uses short-term investments for the purpose of cash management and liquidity risk management. It also maintains short-term and long-term investment portfolios that consist of the proceeds from a prepayment of a credit receivable. Investments in these portfolios are made to offset debt originally issued to finance the credit receivable, thereby reducing interest-rate risk and generating net interest earnings. The investment portfolios will continue until a significant portion of the debt is either called or matured.

All investments adhere to requirements of *The Act*, the CWB's annual borrowing authority granted by the minister of finance and applicable government guidelines. The CWB manages investment-related credit risk by transacting only with highly rated counterparties.

Operational risk

Operational risk is the risk of loss resulting from a breakdown in administrative procedures and controls or any aspect of operating procedures. The CWB's operational risk-management philosophy encourages an environment of effective operational risk discipline. Operational risk-management activities include segregation of duties, cross-training and professional development, disaster recovery planning, the use of an integrated financial system, internal and external audits and an independent risk-control and reporting function.

Outlook

The 2007-08 growing season was similar in many ways to that of 2006-07. The crop, after experiencing a wet spring that delayed seeding in the northern growing regions, was mostly hot and dry. Record temperatures in July lowered crop yields across the region, with the greatest impact occurring in the southern growing region. Harvest began in the southern regions in early August and did not finish until the middle of October in the north. Although the 2007-08 harvest was not as early as in the previous year, crop quality remained above average.

Market conditions for the 2007-08 crop are expected to be the best in many years, as record or near-record prices for wheat, durum and barley are expected. These prices have been caused by a shortfall in production for wheat, durum and barley, combined with very strong demand. Tempering the positive market factors has been an exceptionally strong Canadian dollar and record-high ocean bulk freight rates. The combination of increased freight rates and grain prices has resulted in extremely high values for customers, which is expected to temper overall demand for wheat, durum and barley.

Wheat markets rose to record levels at the start of the 2007-08 marketing year and are expected to remain strong until the 2008 winter wheat harvest begins in the northern hemisphere. Extremely tight ending-stocks projections for the 2007-08 marketing year are expected to keep prices at historically high levels. Production shortfalls in key producing areas of Russia, Ukraine, Canada, Europe and Australia have led to limited supplies in exporting countries. The U.S. has sold over three-quarters of its wheat crop by the end of the first quarter of its marketing year.

The threat of export taxes and restrictions in Argentina, Russia and Ukraine has also buoyed prices. Grain stocks of the major wheat exporters are forecast to be the lowest in over 35 years at the end of the 2007-08 marketing year.

The durum market fundamentals are even more positive than those for milling wheat. Reduced stocks going into the marketing year combined with production difficulties in importing and exporting areas have led to extremely tight ending stocks projections for 2007-08. Demand will be rationed significantly as prices have raced to record levels. Drought in Morocco and Greece, combined with poor harvest weather in the Mediterranean basin, is expected to result in strong import demand for durum wheat. Production in Canada and the U.S. was lower than expected due to hot, dry conditions during the growing season. The restricted supplies are expected to keep prices at record levels until the arrival of new crop supplies.

International barley markets have also risen to near-record levels in response to very tight supplies. The drought in the Black Sea region, combined with poorer-than-expected yields in Western Europe, has limited export supplies. Poor harvest weather in Europe has limited malting barley supplies for the second consecutive year. The hot, dry conditions in North America during July also reduced supplies of barley in Canada and the United States. The main factor in world barley markets, however, has been the second consecutive year of drought in Australia, which has severely limited supplies of barley for export and created an extremely tight ending-stocks situation. This should support prices for both feed and malting barley until the arrival of the 2008 harvest.

While a number of external factors create the possibility of significant change for the CWB, the board of directors has also decided to embrace widespread change internally.

FORWARD-LOOKING STATEMENTS

Certain forward-looking information contained in this annual report is subject to risk and uncertainty because of the reliance on assumptions and estimates based on current information. A number of factors could cause actual results to differ from those expressed. They include, but are not limited to: weather; changes in government policy and regulations; world agriculture commodity prices and markets; shifts in currency values and credit; the nature of the transportation environment, especially for rail within North America and by ocean vessel internationally; and changes in competitive forces and global political/economic conditions, including continuing WTO negotiations with regard to the minister of finance's guarantee on the CWB debt and on the government's commitment to guarantee initial payments to farmers.

As well, the federal government has appealed the Federal Court ruling of July 31, 2007 that any changes to the way barley is marketed must be made according to the process set out in *The Act*. The appeal is scheduled to be heard February 26, 2008 in Winnipeg. Given that most designated barley is typically marketed well before its eventual delivery to a customer, the appeal creates the potential for another significant period of disruption similar to that described on page 51.

Meanwhile, the federal government has indicated it will not change the CWB's mandate to market wheat prior to the 2008-09 crop year, but remains committed to the removal of the CWB's single-desk mandate for wheat, durum wheat and barley.

While a number of external factors create the possibility of significant change for the CWB, the board of directors has also decided to embrace widespread change internally. At its summer 2007 planning session, the board agreed that the CWB must renew its relationship with farmers by accelerating a process begun several years ago to offer an increasingly wide assortment of pricing, payment and delivery options – without sacrificing market premiums generated through the power of the single desk. The board has since approved the development of options to be implemented in the short term, as well as a plan to seek farmer input on several others.

Financial results

Management's responsibility for financial reporting

The financial statements of the Canadian Wheat Board included in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the board of directors. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and reflect the results for the 2006-07 pool accounts, Producer Payment Options and the financial status of the Corporation at July 31, 2007.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by corporate audit services that conducts periodic reviews of different aspects of the Corporation's operations.

The board of directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of directors exercises this responsibility through the Audit, Finance and Risk Committee of the board of directors, which is composed of directors who are not employees of the Corporation. The Audit, Finance and Risk Committee meets with management, the internal auditors and the external auditors on a regular basis, and the external and internal auditors have full and free access to the Audit, Finance and Risk Committee.

The Corporation's external auditors, Deloitte & Touche LLP, are responsible for auditing the transactions and financial statements of the Corporation and for issuing their report thereon.

Greg Arason
President and Chief Executive Officer

Brita Chell
Chief Financial Officer

Winnipeg, Manitoba
November 9, 2007

Auditors' report

To the Board of Directors of the Canadian Wheat Board

We have audited the financial statements of the Canadian Wheat Board which include the balance sheet as at July 31, 2007 and the combined statement of pool operations and statement of distribution to producers for the crop year then ended, the statements of operations and statements of distribution to producers for wheat, durum and designated barley for the crop year ended July 31, 2007, and for barley for the six-month period ended January 31, 2007 and for the six-month period ended July 31, 2007, the statements of operations for wheat, durum and designated barley producer payment options for the crop year ended July 31, 2007, and for barley for the six-month period ended January 31, 2007 and for the six-month period ended July 31, 2007, the statement of cash flow for the crop year ended July 31, 2007, and the statement of administrative expenses for the crop year ended July 31, 2007. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2007 and the results of its operations and the cash flow for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
November 9, 2007

Balance sheet

AS AT JULY 31 (dollar amounts in 000s)	2007	2006
ASSETS		
Accounts receivable		
Credit programs (Note 3)	$ 1,359,811	$ 2,748,530
Non-credit sales	55,325	10,732
Advance payment programs (Note 4)	417,079	448,069
Prepayment of inventory program	67,507	30,906
Other	69,420	55,380
	1,969,142	**3,293,617**
Inventory of grain (Note 5)	843,346	716,161
Deferred and prepaid expenses (Note 6)	192,549	107,601
Investments (Note 7)	1,094,993	973,723
Capital assets (Note 8)	82,064	71,699
Total assets	**$ 4,182,094**	**$ 5,162,801**
LIABILITIES		
Borrowings (Note 9)	$ 3,130,241	$ 4,306,040
Accounts payable and accrued expenses (Note 10)	225,314	79,673
Liability to agents (Note 11)	462,897	381,421
Liability to producers – Outstanding cheques	25,599	21,665
Liability to producers – Undistributed earnings (Note 12)	324,032	324,636
Provision for producer payment expenses (Note 13)	1,608	2,266
Special Account (Note 14)	3,177	2,788
Contingency Fund (Note 15)	9,226	44,312
Total liabilities	**$ 4,182,094**	**$ 5,162,801**

Approved by the board of directors:

Ken Ritter
Chair, board of directors

Greg Arason
President and Chief Executive Officer

Combined pool accounts

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007	2006
STATEMENT OF POOL OPERATIONS*		
Receipts (tonnes)	**21 517 919**	**18 788 084**
Revenue	**$ 4,948,584**	**$ 3,498,338**
Direct costs		
Freight	297,267	204,358
Terminal handling	151,450	141,261
Inventory storage	71,401	66,167
Country inventory financing	10,176	6,618
Inventory adjustments (Note 16)	(3,068)	(20,658)
Other grain purchases (Note 17)	44,334	35,823
Other direct expenses (Note 18)	28,663	24,717
Total direct costs	**600,223**	**458,286**
Net revenue from operations	**4,348,361**	**3,040,052**
Other income (Note 19)	218,069	149,274
Net interest earnings	30,550	36,138
Administrative expenses (Note 20)	(67,580)	(69,844)
Grain industry organizations	(2,022)	(2,131)
Earnings for distribution	**$ 4,527,378**	**$ 3,153,489**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION	2007	2006
Earnings distributed to pool participants		
Receipts (tonnes)	**18 096 513**	**18 094 724**
Initial payments on delivery	$ 2,928,311	$ 2,418,548
Adjustment payments	666,780	335,716
Interim payment	51,540	155,652
Final payment	168,031	125,509
Total earnings distributed to pool participants	3,814,662	3,035,425
Transferred to Contingency Fund		
Undistributed earnings (Note 15)	1,878	789
Non-pool Producer Payment Options program		
Receipts (tonnes)	**3 421 406**	**693 360**
Sales returns paid to payment program	710,838	117,275
Total distribution	**$ 4,527,378**	**$ 3,153,489**

Wheat pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007		2006	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**15 516 550**		**11 971 249**	
Revenue	**$ 3,540,904**	**$ 228.20**	**$ 2,237,944**	**$ 186.94**
Direct costs				
Freight	196,322	12.65	108,496	9.06
Terminal handling	116,474	7.51	102,106	8.53
Inventory storage	44,316	2.86	38,452	3.21
Country inventory financing	7,980	0.51	4,649	0.39
Inventory adjustments (Note 16)	(2,875)	(0.19)	(18,740)	(1.57)
Other grain purchases (Note 17)	23,964	1.54	11,488	0.96
Other direct expenses (Note 18)	22,005	1.42	17,570	1.47
Total direct costs	**408,186**	**26.30**	**264,021**	**22.05**
Net revenue from operations	**3,132,718**	**201.90**	**1,973,923**	**164.89**
Other income (Note 19)	146,310	9.42	96,404	8.05
Net interest earnings	22,382	1.44	25,578	2.14
Administrative expenses (Note 20)	(48,759)	(3.14)	(44,625)	(3.73)
Grain industry organizations	(1,399)	(0.09)	(1,319)	(0.11)
Earnings for distribution	**$ 3,251,252**	**$ 209.53**	**$ 2,049,961**	**$ 171.24**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**12 127 555**		**11 282 096**	
Initial payments on delivery	$ 2,031,897	$ 167.54	$ 1,577,033	$ 139.78
Adjustment payments	407,169	33.57	171,981	15.24
Interim payment	–	–	90,256	8.00
Final payment	107,594	8.87	94,094	8.34
Total earnings distributed to pool participants	2,546,660	209.98	1,933,364	171.36
Non-pool Producer Payment Options program				
Receipts (tonnes)	**3 388 995**		**689 153**	
Sales returns paid to payment program	704,592	207.91	116,597	169.19
Total distribution	**$ 3,251,252**	**$ 209.53**	**$ 2,049,961**	**$ 171.24**

Durum pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007 Total	2007 Per tonne	2006 Total	2006 Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**3 982 710**		**4 308 906**	
Revenue	**$ 1,019,368**	**$ 255.95**	**$ 864,199**	**$ 200.56**
Direct costs				
Freight	82,982	20.84	81,824	18.99
Terminal handling	27,915	7.01	28,811	6.69
Inventory storage	14,910	3.74	14,896	3.46
Country inventory financing	1,627	0.41	1,365	0.32
Inventory adjustments (Note 16)	(741)	(0.19)	(1,980)	(0.47)
Other grain purchases (Note 17)	19,063	4.79	14,717	3.42
Other direct expenses (Note 18)	6,707	1.68	5,816	1.35
Total direct costs	**152,463**	**38.28**	**145,449**	**33.76**
Net revenue from operations	**866,905**	**217.67**	**718,750**	**166.80**
Other income (Note 19)	24,841	6.23	21,620	5.02
Net interest earnings	3,705	0.93	5,622	1.31
Administrative expenses (Note 20)	(12,515)	(3.14)	(16,062)	(3.73)
Grain industry organizations	(359)	(0.09)	(475)	(0.11)
Earnings for distribution	**$ 882,577**	**$ 221.60**	**$ 729,455**	**$ 169.29**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION	2007 Total	2007 Per tonne	2006 Total	2006 Per tonne
Earnings distributed to pool participants				
Receipts (tonnes)	**3 981 956**		**4 306 248**	
Initial payments on delivery	$ 609,962	$ 153.18	$ 559,368	$ 129.90
Adjustment payments	200,379	50.32	113,643	26.39
Interim payment	35,838	9.00	43,062	10.00
Final payment	36,234	9.10	12,948	3.01
Total earnings distributed to pool participants	882,413	221.60	729,021	169.30
Non-pool Producer Payment Options program				
Receipts (tonnes)	**754**		**2 658**	
Sales returns paid to payment program	164	217.83	434	163.38
Total distribution	**$ 882,577**	**$ 221.60**	**$ 729,455**	**$ 169.29**

Designated barley pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007		2006	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**1 851 337**		**1 464 682**	
Revenue	**$ 354,641**	**$ 191.56**	**$ 248,361**	**$ 169.57**
Direct costs				
Freight	17,987	9.72	13,823	9.44
Terminal handling	5,072	2.74	4,723	3.22
Inventory storage	11,671	6.30	11,640	7.95
Country inventory financing	542	0.29	518	0.35
Inventory adjustments (Note 16)	871	0.47	(189)	(0.13)
Other grain purchases (Note 17)	1,375	0.74	6,208	4.24
Other direct expenses (Note 18)	(896)	(0.48)	(373)	(0.25)
Total direct costs	**36,622**	**19.78**	**36,350**	**24.82**
Net revenue from operations	**318,019**	**171.78**	**212,011**	**144.75**
Other income (Note 19)	45,797	24.73	30,834	21.05
Net interest earnings	2,160	1.17	1,331	0.91
Administrative expenses (Note 20)	(5,818)	(3.14)	(5,460)	(3.73)
Grain industry organizations	(248)	(0.13)	(241)	(0.16)
Earnings for distribution	**$ 359,910**	**$ 194.41**	**$ 238,475**	**$ 162.82**

* Excludes operation of Producer Payment Options program

	2007 Total	2007 Per tonne	2006 Total	2006 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**1 831 524**		**1 463 476**	
Initial payments on delivery	$ 269,103	$ 146.93	$ 193,088	$ 131.94
Adjustment payments	54,371	29.69	34,998	23.91
Interim payment	14,652	8.00	7,317	5.00
Final payment	17,989	9.82	2,873	1.96
Total earnings distributed to pool participants	356,115	194.44	238,276	162.81
Non-pool Producer Payment Options program				
Receipts (tonnes)	**19 813**		**1 206**	
Sales returns paid to payment program	3,795	191.55	199	165.18
Total distribution	**$ 359,910**	**$ 194.41**	**$ 238,475**	**$ 162.82**

Barley pool A

FOR THE SIX MONTHS ENDED JANUARY 31 (dollar amounts in 000s)	2007		2006	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**147 513**		**915 783**	
Revenue	**$ 30,013**	**$ 203.46**	**$ 127,152**	**$ 138.84**
Direct costs				
Freight	(20)	(0.14)	47	0.05
Terminal handling	1,863	12.63	4,118	4.50
Inventory storage	364	2.47	936	1.02
Country inventory financing	24	0.16	55	0.06
Inventory adjustments (Note 16)	(329)	(2.23)	235	0.26
Other grain purchases (Note 17)	(99)	(0.67)	2,300	2.51
Other direct expenses (Note 18)	613	4.16	623	0.68
Total direct costs	**2,416**	**16.38**	**8,314**	**9.08**
Net revenue from operations	**27,597**	**187.08**	**118,838**	**129.76**
Other income (Note 19)	127	0.86	291	0.32
Net interest earnings	1,201	8.14	2,256	2.46
Administrative expenses (Note 20)	(426)	(2.89)	(3,222)	(3.52)
Grain industry organizations	(14)	(0.09)	(82)	(0.09)
Earnings for distribution	**$ 28,485**	**$ 193.10**	**$ 118,081**	**$ 128.93**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**135 669**		**915 440**	
Initial payments on delivery	$ 14,983	$ 110.44	$ 79,946	$ 87.33
Adjustment payments	4,647	34.25	15,094	16.48
Interim payment	–	–	9,154	10.00
Final payment	5,686	41.91	13,842	15.12
Total earnings distributed to pool participants	25,316	186.60	118,036	128.93
Transferred to Contingency Fund				
Undistributed earnings (Note 15)	882	6.50	–	–
Non-pool Producer Payment Options program				
Receipts (tonnes)	**11 844**		**343**	
Sales returns paid to payment program	2,287	193.09	45	129.87
Total distribution	**$ 28,485**	**$ 193.10**	**$ 118,081**	**$ 128.93**

Barley pool B

FOR THE SIX MONTHS ENDED JULY 31 (dollar amounts in 000s)	2007 Total	2007 Per tonne	2006 Total	2006 Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**19 809**		**127 464**	
Revenue	**$ 3,658**	**$ 184.64**	**$ 20,682**	**$ 162.26**
Direct costs				
Freight	(4)	(0.23)	168	1.31
Terminal handling	126	6.39	1,503	11.79
Inventory storage	140	7.06	243	1.91
Country inventory financing	3	0.15	31	0.24
Inventory adjustments (Note 16)	6	0.28	16	0.13
Other grain purchases (Note 17)	31	1.55	1,111	8.72
Other direct expenses (Note 18)	234	11.81	1,080	8.47
Total direct costs	**536**	**27.01**	**4,152**	**32.57**
Net revenue from operations	**3,122**	**157.63**	**16,530**	**129.69**
Other income (Note 19)	994	50.17	125	0.98
Net interest earnings	1,102	55.61	1,351	10.60
Administrative expenses (Note 20)	(62)	(3.14)	(475)	(3.73)
Grain industry organizations	(2)	(0.09)	(14)	(0.11)
Earnings for distribution	**$ 5,154**	**$ 260.18**	**$ 17,517**	**$ 137.43**

* Excludes operation of Producer Payment Options program

	2007 Total	2007 Per tonne	2006 Total	2006 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**19 809**		**127 464**	
Initial payments on delivery	$ 2,366	$ 119.46	$ 9,113	$ 71.49
Adjustment payments	214	10.80	–	–
Interim payment	1,050	53.00	5,863	46.00
Final payment	528	26.64	1,752	13.75
Total earnings distributed to pool participants	4,158	209.90	16,728	131.24
Transferred to Contingency Fund				
Undistributed earnings (Note 15)	996	50.28	789	6.19
Total distribution	**$ 5,154**	**$ 260.18**	**$ 17,517**	**$ 137.43**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007	2006
WHEAT PROGRAMS		
FIXED / BASIS / DAILY PRICE CONTRACT		
Receipts (tonnes)	3 388 995	689 153
Revenue		
Sales returns paid to program	$ 704,592	$ 116,597
Pricing damages	2,509	917
	707,101	117,514
Expense		
Contracted amounts paid to producers	737,575	123,234
Net hedging activity	3,367	170
Net interest	3,201	228
Administrative expense (Note 20)	3,584	729
	747,727	124,361
Net deficit on program operations	**$ (40,626)**	**$ (6,847)**
EARLY PAYMENT OPTION		
Receipts (tonnes)	806 287	1 080 124
Revenue		
Program discount	$ 1,624	$ 1,544
Pricing damages	2	73
	1,626	1,617
Expense		
Pool returns less than contracted price	309	647
Net hedging activity	373	579
Net interest	159	102
Administrative expense (Note 20)	298	400
	1,139	1,728
Net surplus (deficit) on program operations	**$ 487**	**$ (111)**
TOTAL WHEAT PROGRAMS (Note 15)	**$ (40,139)**	**$ (6,958)**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)		2007		2006
DURUM PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**754**		**2 658**
Revenue				
Sales returns paid to program	$	164	$	434
Pricing damages		1		2
		165		436
Expense				
Contracted amounts paid to producers		143		429
Net hedging activity		–		37
Net interest		1		–
Administrative expense (Note 20)		1		3
		145		469
Net surplus (deficit) on program operations	**$**	**20**	**$**	**(33)**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**199 272**		**402 084**
Revenue				
Program discount	$	347	$	532
Pricing damages		1		48
		348		580
Expense				
Pool returns less than contracted price		–		29
Net hedging activity		19		228
Net interest		11		25
Administrative expense (Note 20)		74		149
		104		431
Net surplus on program operations	**$**	**244**	**$**	**149**
TOTAL DURUM PROGRAMS (Note 15)	**$**	**264**	**$**	**116**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)		2007		2006
DESIGNATED BARLEY PROGRAMS				
FIXED / BASIS PRICE CONTRACTS				
Receipts (tonnes)		19 813		1 206
Revenue				
Sales returns paid to program	$	3,795	$	[illegible]
Net hedging activity		19		17
Pricing damages		35		[illegible]
		3,849		[illegible]
Expense				
Contracted amounts paid to producers		3,689		[illegible]
Net interest		18		[illegible]
Administrative expense (Note 20)		21		[illegible]
		3,728		[illegible]
Net surplus on program operations	**$**	**121**	**$**	**19**
EARLY PAYMENT OPTION				
Receipts (tonnes)		400 621		295 244
Revenue				
Program discount	$	630	$	317
Pricing damages		7		13
		637		330
Expense				
Pool returns less than contracted price		67		66
Net hedging activity		29		[illegible]
Net interest		15		25
Administrative expense (Note 20)		148		[illegible]
		259		[illegible]
Net surplus on program operations	**$**	**378**	**$**	**121**
TOTAL DESIGNATED BARLEY PROGRAMS (Note 15)	**$**	**499**	**$**	**140**

Statement of Producer Payment Options program operations

FOR THE SIX MONTHS ENDED JANUARY 31 (dollar amounts in 000s)		2007		2006
BARLEY POOL A PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**11 844**		**343**
Revenue				
Sales returns paid to program	$	2,287	$	45
Pricing damages		2		–
		2,289		45
Expense				
Contracted amounts paid to producers		1,713		43
Net hedging activity		6		–
Net interest		2		–
Administrative expense (Note 20)		13		–
		1,734		43
Net surplus on program operations	**$**	**555**	**$**	**2**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**127 054**		**780 894**
Revenue				
Program discount	$	241	$	497
Pricing damages		4		10
		245		507
Expense				
Net hedging activity		7		27
Net interest		29		55
Administrative expense (Note 20)		47		289
		83		371
Net surplus on program operations	**$**	**162**	**$**	**136**
TOTAL BARLEY POOL A PROGRAMS (Note 15)	**$**	**717**	**$**	**138**

Statement of Producer Payment Options program operations

FOR THE SIX MONTHS ENDED JULY 31 (dollar amounts in 000s)		2007		2006
BARLEY POOL B PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		–		–
Revenue				
Net hedging activity	$	–	$	1
		–		1
Expense				
Net surplus on program operations	$	–	$	1
EARLY PAYMENT OPTION				
Receipts (tonnes)		15 697		99 801
Revenue				
Program discount	$	100	$	66
Net hedging activity		–		1
Liquidated damages		2		6
		102		73
Expense				
Pool returns less than contracted price		–		187
Net hedging activity		58		–
Net interest		6		12
Administrative expense (Note 20)		6		37
		70		236
Net surplus (deficit) on program operations	$	32	$	(163)
TOTAL BARLEY POOL B PROGRAMS (Note 15)	$	32	$	(162)

Statement of cash flow

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in $000s)	2007	2006
Increases (decreases) of cash during the year		
Cash flow from operating activities		
Pool earnings for distribution	$ 4,527,379	$ 3,153,489
Producer Payment Options program operations	(5,970)	836
Pre-delivery Top-up program	91	35
Interest earned on non-program Contingency Fund balance	1,570	1,601
Add non-cash items		
Depreciation on CWB hopper cars	3,925	2,654
Depreciation on other capital assets	8,593	9,104
Write down of system development and computer equipment asset	–	2,436
Cash flow from operating activities before changes in working capital	4,535,588	3,170,155
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	(64,244)	(109,931)
Inventory of grain	(127,185)	44,002
Deferred and prepaid expenses	(84,947)	(67,414)
Accounts payable and accrued expenses	145,642	(9,729)
Liability to agents	81,476	(127,174)
Liability to producers for outstanding cheques	3,934	962
Provision for producer payment expenses	(658)	526
Special Account	390	(1,092)
	4,489,996	2,900,305
Cash flow from financing activities		
Increase in investments	(121,270)	(114,204)
Decrease in borrowings	(1,175,799)	(704,007)
	(1,297,069)	(818,211)
Cash flow from investing and other activities		
Accounts receivable – Credit programs	1,388,719	1,178,414
Purchase of capital assets	(23,602)	(39,485)
Proceeds from sale of capital assets	718	1,252
	1,365,835	1,140,181
Cash distributions		
Prior year undistributed earnings	(324,636)	(386,651)
Current year distributions prior to July 31	(3,447,062)	(2,648,320)
Non-pool Producer Payment Option program payments	(787,064)	(187,304)
	(4,558,762)	(3,222,275)
Net increase in cash and cash equivalents	–	–
Net cash position at beginning of year	–	–
Net cash position at end of year	$ –	$ –

Statement of administrative expenses

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000s)	2007	2006
Human resources	$ 39,189	$ 37,326
Office services	3,623	3,497
Professional fees	14,909	12,192
Computer services	1,537	1,634
Facilities	1,780	1,905
Travel	1,875	2,600
Advertising and promotion	1,417	1,639
Other	1,023	1,028
Training	453	819
Depreciation	8,593	9,104
Write down of system development and computer equipment asset	–	2,436
Recoveries	(2,254)	(2,252)
Total administrative expenses (Note 20)	**$ 72,145**	**$ 71,928**

Notes to financial statements

(dollar amounts in 000s)

1. ACT OF INCORPORATION AND MANDATE

The Canadian Wheat Board (the Corporation) was established by *The Canadian Wheat Board Act (The Act)*, a statute of the Parliament of Canada.

On June 11, 1998, Bill C-4, *An Act to Amend the Canadian Wheat Board Act* continued the Corporation as a shared governance corporation, without share capital, effective December 31, 1998.

The Corporation was created for the purpose of marketing, in an orderly manner, in inter-provincial and export trade, grain grown in Western Canada. The Corporation is headed by a board of directors, comprising 10 producer-elected and five government-appointed members. The Corporation is accountable for its affairs to both western Canadian farmers through its elected board members and to Parliament through the Minister for the Canadian Wheat Board.

The Corporation is exempt from income taxes pursuant to Section 149(1)(d) of the *Income Tax Act*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which require the Corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingencies. These estimates and assumptions are based on management's best knowledge of current events and actions that the Corporation may undertake in the future. Actual results could differ from those estimates.

Results of operations

The financial statements at July 31 include the final operating results for all pool accounts and programs for the crop year ended July 31, where marketing operations have been completed thereafter. In determining the financial results for such pools and programs, the accounts of the Corporation at July 31 include:

Revenue – Revenue from grain sales is recognized in the accounts at the time that shipment is made, at a value defined in the sales contract.

Inventory – Inventory of grain on hand at July 31 is valued at the amount that is ultimately expected to be received as sale proceeds less costs to be incurred to realize these sales values.

Allowances for losses on accounts receivable

Accounts receivable from credit programs – The federal government guarantees the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sales Program (CGSP) and a declining percentage, based on the repayment term of the credit, of all receivables resulting from sales made under the Agri-food Credit Facility (ACF). The Corporation assumes the risk not covered by the federal government. For receivables resulting from credit sales made outside of the CGSP and the ACF, the Corporation enters into arrangements with commercial banks, which will assume the credit risk without recourse.

Accounts receivable from non-credit sales – Shipments are made pursuant to the receipt of appropriate letters of credit issued by commercial banks that guarantee the receipt of funds by the Corporation or bills of lading representing grain ownership are retained until receipt of funds by the Corporation.

Accounts receivable from cash advance payment programs – The federal government guarantees the repayment of the principal amount due from producers resulting from cash advances made under the *Agricultural Marketing Programs Act (AMPA)*, the Spring Credit Advance Program (SCAP), the Enhanced Spring Credit Advance Program (ESCAP), the Unharvested Threshed Grain Advance Program and the Advance Payment Program (APP).

With respect to receivables from credit programs, non-credit sales and advance payment programs, as a result of guarantees and arrangements, no provision is made with respect to the possibility of debtors defaulting on their obligations. Other receivable accounts are monitored and allowance for losses is provided for where collection is deemed unlikely.

Capital assets and depreciation

Capital assets are recorded at cost and depreciated on a straight-line method over their expected useful life as follows:

Asset class	Term (years)
Computer equipment	2 to 6
Computer systems development	2 to 10
Automobiles	2 to 3
Building and office improvements	10
Office furniture and equipment	10
Hopper cars (post-August 2005)	15
Hopper cars (pre-August 2005)	30
Building	40
Leasehold improvements	Term of lease

Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance-sheet date. Exchange adjustments arising from the translation of foreign currency denominated assets or liabilities are recognized in the period in which they occur, as a component of revenue. Borrowings in currencies other than Canadian or U.S. dollars are hedged by cross-currency interest-rate swaps and currency swaps and are converted into Canadian or U.S. dollars at the rates provided therein. The Corporation hedges U.S. dollar assets and liabilities on a portfolio basis, primarily by matching U.S. dollar assets to U.S. dollar liabilities.

Sales contracts denominated in foreign currencies are hedged by foreign-exchange forward contracts. Forward-exchange contracts are translated into Canadian dollars at the rates provided therein. These amounts are recorded in revenue as an adjustment to the underlying sales transactions.

Other income and expenses are translated at the daily exchange rates in effect during the year.

The net foreign-exchange gains included in operations for the year ended July 31, 2007 are $5,885 (2006 – $26,423).

Derivative financial and commodity instruments

The Corporation uses various types of derivatives, such as swaps, forwards, futures and option contracts, in order to manage its exposure to currency, interest-rate and commodity price risks. These instruments are designated as hedges and are used for risk-management purposes. These derivative contracts are initiated within the guidelines of the Corporation's risk-management and hedging policies, which provide for discretionary trading within the policy's trading limits. The Corporation formally documents its risk-management objectives and strategies for undertaking the hedging transaction and the relationship between the hedged item and derivative. The Corporation assesses, both at inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Corporation recognizes derivative financial and commodity instruments as a hedge of the underlying exposure. Gains or losses on these contracts are recognized when the related underlying hedged transaction is recognized. Commodity contracts, while an economic hedge, do not qualify for hedge accounting. They are marked-to-market at the balance-sheet date, with the unrealized gains or losses disclosed as a component of deferred and prepaid expenses. When the gains or losses are realized, they are recorded in the same pool account or Producer Payment Options (PPO) program as the related sale or PPO program that is being hedged.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are recognized in the respective pool account or PPO program in the period in which the underlying hedged transaction is recognized. If the designated hedged item is no longer expected to occur prior to the termination of the related derivative instrument, realized and unrealized gains or losses are recognized in the pool account or PPO program in which the underlying hedged transaction was expected to be recognized. Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated.

Interest-rate contracts are used to manage interest-rate risk associated with the Corporation's funding and asset/liability management strategies. The amounts to be paid or received under single-currency and cross-currency interest-rate swap contracts are recognized in the period in which they occur, as a component of net interest earnings.

Foreign-exchange contracts are used to hedge currency exposure arising from grain sales, PPOs and funding operations. The amounts to be paid or received under forward and option contracts are recognized in the same pool account or PPO program in which the related foreign currency transaction occurs, as a component of revenue. The amounts to be paid or received from currency contracts used to hedge currency risk from funding operations are recognized in the period in which they occur, as a component of net interest earnings.

Commodity contracts are used to manage price risk arising from grain sales and PPOs. The amounts to be paid or received under futures and option contracts are recognized as a component of revenue, in the same pool account or PPO program as the related sale or PPO program that is being hedged.

Net interest earnings

Net interest earnings include interest revenue and expenses related to accounts receivable and borrowings, bank charges, transaction and program fees on borrowing facilities and interest earned on each pool account during the pool period and until final distribution of earnings to producers.

Employee future benefits

Employees of the Corporation are entitled to specified benefits provided upon retirement or termination.

Pension plan – Effective July 1, 2003, the Corporation began administrating its own pension plan for its employees. Previously, employees participated in the *Public Service Superannuation Act (PSSA)* pension plan, administered by the federal government. Currently, the Corporation has completed negotiations with the federal government for the transfer of pension assets from the *PSSA* for employees who choose to transfer past service to the new plan. As at July 31, 2007, the majority of pension assets have been transferred to the Corporation's pension plan. Hence the Corporation is disclosing the fair value of pension assets and reconciliation with the accrued benefit obligation and expense as required under GAAP for the first time.

The Corporation sponsors three Defined-benefit pension plans and one Defined-contribution plan and provides other post-employment benefits. The defined-benefit components provide pensions based on years of service and average earnings prior to retirement. The defined-contribution component provides pensions based on contributions made and investment earnings. Employer contributions to the CWB Pension Plan are expensed during the year in which the services are rendered.

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets, over the periods in which the employees render services in return for the benefits. The Corporation has adopted the following policies:

- The accrued benefit obligation is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and other actuarial factors.
- For the purposes of calculating the expected return on plan assets, those assets are valued at fair value.
- The transitional obligation and actuarial gains (losses) are being amortized over the Average Remaining Service Period (ARSP), which has been actuarially determined to be 11 years (2006 – 11 years) for Defined-benefit pension plans and 13 years (2006 – 13 years) for other post-employment benefits.
- Amortization of actuarial gains (losses) will be recognized in the period in which, as of the beginning of the period, the net actuarial gains (losses) are more than 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets.

Future accounting and reporting changes

In January 2005, the Canadian Institute of Chartered Accounts (CICA) issued three new accounting standards: Financial Instruments – Recognition and Measurement, Hedges, and Comprehensive Income. The new standards are to be applied prospectively and are effective for the Corporation's fiscal year beginning on August 1, 2007.

The new standards will require the Corporation to classify each of its financial assets as held-to-maturity, loans and receivables, held-for-trading, or available-for-sale. Financial liabilities will be classified as other or held-for-trading. Subsequent measurement is to be determined by the classification of each financial asset and financial liability.

Financial assets classified as held-to-maturity will be restricted to financial assets with a fixed term to maturity that the Corporation intends and is able to hold to maturity. Financial assets classified as held-to-maturity or loans and receivables will be accounted for at amortized cost using the effective interest method. Financial assets classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income. Financial assets classified as available-for-sale will be accounted for at fair value with unrealized gains and losses being reported in a new category in comprehensive income for future distribution called cumulative other comprehensive income.

Financial liabilities classified as other will be accounted for at amortized cost using the effective interest method. Financial liabilities classified as held-for-trading will be accounted for at fair value with realized and unrealized gains and losses reported in income.

A new category of comprehensive income for future distribution will be added to the Corporation's balance sheet. Comprehensive income for future distribution will comprise the Corporation's earnings/loss for future distribution and cumulative other comprehensive income. Cumulative other comprehensive income includes foreign exchange contracts that were in hedging relationships at July 31, 2007 and will not be on August 1, 2007.

Derivative financial instruments will be classified as held-for-trading. All derivatives, including embedded derivatives, will be measured at fair value with realized and unrealized gains and losses reported in income.

The following table summarizes the Corporation's expected classification of financial instruments on August 1, 2007:

	Financial instrument type	**Classification**
Financial assets	Temporary investments	Loans and receivables
	Accounts receivable Loans receivable	Loans and receivables
	Investments	Held-for-trading
Financial liabilities	Accounts payable and accrued liabilities Short-term debt	Other financial liabilities
	Long-term debt (structured notes)	Held-for-trading
Derivatives	Currency swaps Single currency interest rate swaps Cross currency interest rate swaps Commodity futures contracts Sales contracts Purchase contracts	Held-for-trading

A transition adjustment attributable to the following will be recognized in the Corporation's opening balance of comprehensive income for future distribution as at August 1, 2007: (i) the fair value of financial assets classified as held-for-trade that were not previously recorded, and (ii) deferred gains and losses on hedging relationships that will not continue to be accounted for under hedge accounting.

These changes will be applied prospectively and the prior period will not be restated. The Corporation is currently reviewing the guidance to determine the potential impact on its financial statements.

3. ACCOUNTS RECEIVABLE FROM CREDIT SALES PROGRAMS

	Credit Grain Sales Program	Agri-food Credit Facility	**2007 Total**	2006 Total
Due from foreign customers				
Current	$ –	$ 58,562	**$ 58,562**	$ 81,092
Rescheduled	1,284,813	–	**1,284,813**	2,643,547
	1,284,813	58,562	**1,343,375**	2,724,639
Due from federal government	16,436	–	**16,436**	23,891
	$ 1,301,249	$ 58,562	**$ 1,359,811**	$ 2,748,530
Credit risk				
Guaranteed by federal government	$ 1,301,249	$ 57,391	**$ 1,358,640**	$ 2,746,908
Assumed by CWB	–	1,171	**1,171**	1,622
	$ 1,301,249	$ 58,562	**$ 1,359,811**	$ 2,748,530

Accounts receivable balances are classified under the following applicable credit programs:

Credit Grain Sales Program

Accounts receivable under this program arise from sales to Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru and Poland. Of the $1,284,813 principal and accrued interest due from foreign customers at July 31, 2007, $701,495 represents the Canadian equivalent of $657,469, repayable in U.S. funds. Of the $2,643,547 principal and accrued interest due from customers at July 31, 2006, $1,839,794 represents the Canadian equivalent of $1,625,834, repayable in U.S. funds.

In the past year, Russia prepaid all of its remaining rescheduled debt. On August 21, 2006, $928,836 was received which represents the Canadian equivalent of $826,882 repayable in U.S. funds.

Subsequent to the July 31 year-end, Peru prepaid all of its remaining rescheduled debt. On October 1, 2007, $5,051 was paid which represents the Canadian equivalent of $4,733 repayable in U.S. funds.

Through a forum known as the Paris Club, the federal government and other creditors have periodically agreed to extend repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country for a variety of reasons, including humanitarian concerns. All members of the Paris Club are obligated to grant the debtor country the same treatment. Under terms agreed to by the federal government at the Paris Club, the Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru and Poland. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

Under the terms of the rescheduled agreement for Iraq, the federal government will pay 80 per cent of the total debt rescheduled. The last payment of $125,147 is due to the Corporation on December 31, 2008, which represents the Canadian equivalent of $117,311 repayable in U.S. funds. The balance of the debt is due from Iraq.

In addition to debt rescheduling by means of extending repayment terms, the federal government has agreed to reduce the debt owed to the Corporation by Poland. Under these debt reduction arrangements, approximately 85 per cent of the interest amounts that otherwise would have been paid by the debtor government are paid to the Corporation by the federal government. A total of $16,437 was due from the federal government as at July 31, 2007 under these debt reduction agreements. Of this amount, $7,284 represents the Canadian equivalent of $6,828 that will be repayable in U.S. funds.

There is no allowance for credit losses, as the federal government guarantees repayment of the principal and interest of all credit receivables under this program.

Agri-food Credit Facility

Accounts receivable under this facility arise from sales to customers in Brazil, Indonesia, Mexico and Peru. The July 31, 2007 balance of $58,562 (principal and accrued interest) due under the ACF represents the Canadian equivalent of $54,895 repayable in U.S. funds. The July 31, 2006 balance of $81,092 (principal and accrued interest) represents the Canadian equivalent of $71,661 repayable in U.S. funds.

There is no allowance for credit losses, as the federal government guarantees repayment of 98 per cent of the principal and interest of outstanding credit receivables under this program, and management considers the balance collectable in its entirety.

Fair value

All accounts receivable resulting from sales made under credit programs as at July 31, 2007 have contractual interest-rate repricing dates under 365 days. As a result of the short terms to the repricing dates of these financial instruments, fair value approximates the carrying values.

Maturities

These accounts receivable mature as follows:

	2007	2006
Amounts due:		
within 1 year	**$ 496,279**	$ 1,440,683
from 1–2 years	**630,397**	430,248
from 2–3 years	**7,331**	653,314
from 3–4 years	**12,407**	7,377
from 4–5 years	**17,187**	12,709
over 5 years	**196,210**	204,199
	$ 1,359,811	$ 2,748,530

4. ACCOUNTS RECEIVABLE FROM ADVANCE PAYMENT PROGRAMS

	Agricultural Marketing Programs Act	*Prairie Grain Advance Payments Act*	Spring Credit Advance Program	Enhanced Spring Credit Advance Program	Advanced Payment Program (pre-harvest)	Unharvested Grain Advance Program	**2007 Total**	2006 Total
Due from producers	$ 41,076	$ –	$ 203	$ 64,388	$ 298,664	$ –	**$ 404,331**	$ 431,842
Due from (to) federal government	507	(2)	(151)	4,272	3,084	(7)	**7,703**	3,587
Due from (to) agents of the CWB	3,656	–	24	5,844	(4 ,479)	–	**5,045**	12,640
	$ 45,239	$ (2)	$ 76	$ 74,504	$ 297,269	$ (7)	**$ 417,079**	$ 448,069

The Corporation administers the cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the federal government. The Government guarantees the repayment of advances made to producers; therefore the Corporation is not exposed to credit risk. The Corporation recovers its costs of administering the programs from the Government and from producers using the program.

The federal government introduced a revision to the format of the advance programs on April 1, 2007. The new agreement under the *AMPA* is referred to as the APP and contains pre- and post-harvest issuances. The program enables producers to receive up to $400 with interest paid by the federal government on the first $100 issued. The pre-harvest APP is the agreement under which advances in the year ending July 31, 2007 were issued.

The federal government introduced the ESCAP in June 2006 to increase the assistance available to producers with spring seeding costs. The program enables producers to receive up to $100 with interest paid by the federal government. Any balances outstanding under the program reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*. The ESCAP replaced the previous SCAP and any issued 2006-07 advances under SCAP were rolled into ESCAP.

The federal government introduced the Unharvested Threshed Grain Advance Program in the 2002-03 crop year. The program provided cash flow to farmers who were unable to harvest their grain due to early snowfall. The program enabled producers to receive up to $25 with interest paid by the federal government. Any balances outstanding under the program reduced the interest-free and maximum entitlements available to producers in the fall under the *AMPA*.

The federal government introduced the SCAP in the spring of 2000 to assist producers with spring seeding costs. The program enabled producers to receive up to $50 with interest paid by the federal government. Any balances outstanding under the program reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*.

The federal government introduced the *AMPA* in 1997 to provide producers with cash flow by advancing money for grain stored on the farm. This program replaced a previous federal government program under the *Prairie Grain Advance Payments Act (PGAPA)*. The federal government pays interest on advances of up to $50 and the producer pays interest on any amounts in excess of $50.

Cash advances issued during the year by the Corporation under these programs totalled $700,884, including $166,146 issued under the *AMPA*, $237,372 issued under the ESCAP and $297,366 issued under the APP.

Collections from producers and grain companies subsequent to reimbursement by the federal government, plus interest on default accounts collected from producers, are remitted to the federal government as these amounts are received.

Due to the timing of producer deliveries and subsequent remittance by the agent to the Corporation, a component of advance receivables is due from agents.

5. INVENTORY OF GRAIN

Inventory of grain on hand at July 31 is valued at the amount that is ultimately expected to be received as sale proceeds, less costs to be incurred to realize these sales values.

	2007		2006	
	Tonnes	**Amount**	Tonnes	Amount
Wheat	2 803 462	$ **703,136**	2 414 178	$ 466,844
Durum	547 487	**135,921**	1 180 223	206,588
Designated barley	13 893	**2,590**	165 414	27,718
Barley	7 255	**1,699**	112 428	15,011
	3 372 097	$ **843,346**	3 872 243	$ 716,161

6. DEFERRED AND PREPAID EXPENSES

	2007	2006
Net results of hedging activities applicable to subsequent pool accounts	$ **118,183**	$ 18,606
Prepaid cost of moving inventory to eastern export position	**14,213**	25,557
Deposits on commodity margin accounts	**46,756**	51,822
Deferred pension asset	**10,847**	9,122
Other	**2,550**	2,494
	$ **192,549**	$ 107,601

7. INVESTMENTS

The Corporation uses short-term investments for cash management and liquidity risk management and maintains short-term and long-term investment portfolios that are the result of a credit receivable prepayment. Investments in the portfolio are made to offset a portion of debt originally issued to finance the credit receivable. The investment portfolio will continue until a significant portion of the debt is either called or matured. All investments adhere to requirements of *The Act*, the CWB's annual borrowing authority granted by the Minister of Finance and applicable government guidelines.

Short-term investments consist of term deposits, banker's acceptances, certificates of deposit, bearer discount notes, commercial paper and treasury bills with remaining maturities of less than one year.

Long-term investments consist of notes issued in the medium-term note market with an original term to maturity between one and 15 years. The Corporation uses swap contracts to manage interest-rate risk and to convert the currency exposure to either the Canadian dollar or U.S dollars. These contracts ultimately create a floating rate investment similar to that of the Corporation's borrowings.

	Effective interest rate (%)	**2007**	2006
Short-term investments	4.50–5.34	**$ 948,301**	$ 973,723
Long-term investments	5.33–5.54	**146,692**	–
Total investments	4.50–5.54	**$ 1,094,993**	$ 973,723

Of the total investments at July 31, 2007, $823,293 represents the Canadian equivalent of $771,741 that will be repayable in U.S. funds. Of the total investments at July 31, 2006, $593,005 represents the Canadian equivalent of $524,041 repayable in U.S. funds.

These investments mature as follows:

	2007	2006
Amounts due:		
within 1 year	**$ 948,301**	$ 973,723
from 1–2 years	**–**	–
from 2–3 years	**–**	–
from 3–4 years	**–**	–
from 4–5 years	**–**	–
over 5 years	**146,692**	–
	$ 1,094,993	$ 973,723

All investments are accounted for at cost. Long-term investments either have contractual interest-rate repricing dates of 365 days or less or have associated swaps that reprice 365 days or less and, as a result, the carrying values of these investments approximate their fair values.

8. CAPITAL ASSETS

	2007			2006		
	Cost	**Accum. deprec.**	**Net book value**	Cost	Accum. deprec.	Net book value
Computer systems development	**$ 91,546**	**$ 52,856**	**$ 38,690**	$ 74,353	$ 46,281	$ 28,072
Hopper cars	**105,515**	**75,643**	**29,872**	106,544	72,110	34,434
Computer equipment	**15,413**	**11,046**	**4,367**	18,643	14,162	4,481
Furniture and equipment	**4,834**	**3,232**	**1,602**	5,457	4,180	1,277
Land, building and improvements	**14,921**	**7,935**	**6,986**	10,815	7,945	2,870
Automobiles	**854**	**307**	**547**	748	183	565
Leasehold improvements	**109**	**109**	**–**	158	158	–
	$ 233,192	**$ 151,128**	**$ 82,064**	$ 216,718	$ 145,019	$ 71,699

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 238 cars have been wrecked and dismantled, leaving 1,762 in the fleet. The Corporation purchased an additional 1,663 cars, previously under lease, in 2005-06 at a cost of $25,828. Of these, six cars have been wrecked and dismantled, leaving 1,657 in the fleet. The Corporation is reimbursed for destroyed cars under operating agreements with the Canadian National Railway and the Canadian Pacific Railway.

9. BORROWINGS

The Corporation issues debt in world capital markets. The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are unconditionally and irrevocably guaranteed by the Minister of Finance on behalf of Her Majesty in right of Canada through an explicit guarantee included in *The Act*.

Short-term borrowings consist of commercial paper issued by the Corporation in the Canadian, U.S. and Euro markets, bank loans and medium-term notes with remaining maturities of less than one year. The Corporation uses swaps in the same notional amounts and with the same terms as the underlying borrowings to convert the currency exposure to either the Canadian dollar or the U.S. dollar.

Long-term borrowings are notes issued in the domestic and Euro medium-term note market with an original term to maturity between one and 15 years. The majority of the Corporation's long-term notes are structured securities where interest is calculated based on certain index, formula or market references and are redeemable by the Corporation before maturity, due to embedded call features. The Corporation uses swap contracts to mitigate currency risk and manage interest-rate risk associated with long-term borrowings. These contracts ultimately create a floating rate obligation similar to that of the Corporation's short-term borrowings and ensure that the Corporation will receive proceeds from the swap to offset currency and interest-rate fluctuations on the notes' principal and interest payments.

	Effective interest rate (%)	**2007**	2006
Short-term borrowings	3.50–5.50	**$ 1,780,235**	$ 2,686,161
Long-term borrowings	4.09–5.21	**1,329,863**	1,582,061
Accrued interest	–	**20,143**	37,818
Total borrowings	3.50–5.50	**$ 3,130,241**	$ 4,306,040

Of the total borrowings at July 31, 2007, $1,897,515 represents the Canadian equivalent of $1,778,698 repayable in U.S. funds. Of the total borrowings at July 31, 2006, $2,565,653 represents the Canadian equivalent of $2,267,279, repayable in U.S. funds.

These borrowings mature as follows:

	2007	2006
Amounts due:		
within 1 year	**$ 1,800,378**	$ 2,723,979
from 1–2 years	**21,336**	39,606
from 2–3 years	**141,734**	22,632
from 3–4 years	**117,348**	173,861
from 4–5 years	**62,516**	124,476
over 5 years	**986,929**	1,221,486
	$ 3,130,241	$ 4,306,040

After giving effect to interest-rate swaps, all borrowings have contractual interest-rate repricing dates of 365 days or less and, as a result, the carrying values of these borrowings approximate their fair values.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2007	2006
Net hedging and foreign exchange applicable to current year	**$ 116,281**	$ (15,858)
Other accounts payable and accrued expenses	**96,444**	80,409
Deferred sales revenue	**12,589**	15,122
	$ 225,314	$ 79,673

11. LIABILITY TO AGENTS

		2007		2006
Grain purchased from producer	$	**401,853**	$	347,293
Deferred cash tickets		**61,044**		34,128
	$	**462,897**	$	381,421

Grain purchased from producers

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to the Corporation by the agents at terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for grain on hand at country elevator points and in transit at July 31, for which delivery to and settlement by the Corporation is to be completed subsequent to the year-end date.

Deferred cash tickets

Grain companies, acting in the capacity of agents of the Corporation, deposit in trust with the Corporation an amount equal to the value of deferred cash tickets issued to producers for Corporation grain. The Corporation returns these funds to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

12. LIABILITY TO PRODUCERS – UNDISTRIBUTED EARNINGS

Undistributed earnings represent the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. Of the undistributed earnings, totalling $324,032 (2006 – $324,636), $112,522 (2006 – $75,953) was distributed to producers as an adjustment payment on August 8, 2007 and $50,159 (2006 – $138,350) will be distributed to producers in an interim payment pending government approval. The balance of $161,351 (2006 – $110,333) will be distributed to producers through final payments.

13. PROVISION FOR PRODUCER PAYMENT EXPENSES

The amount of $1,608 (2006 – $2,266) represents the balance of the reserve for producer payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor-in-Council.

14. SPECIAL ACCOUNT – NET BALANCE OF UNDISTRIBUTED PAYMENT ACCOUNTS

In accordance with the provision of Section 39 of *The Act*, the Governor-in-Council may authorize the Corporation to transfer to a Special Account the unclaimed balances remaining in payment accounts that have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, Section 39 further provides that these funds shall be used for purposes as the Governor-in-Council, upon the recommendation of the Corporation, may deem to be for the benefit of producers.

The activity in the Special Account comprises:

		2007		2006
Beginning of year	**$**	**2,788**	$	3,880
Transfer from payment accounts		**1,340**		–
Expenditures		**(939)**		(1,090)
Payments to producers against old payment accounts		**(12)**		(2)
End of year	**$**	**3,177**	$	2,788
Ending balance comprising:				
Unexpended authorizations	**$**	**137**	$	488
Not designated for expenditure		**3,040**		2,300
	$	**3,177**	$	2,788

During the year ended July 31, 2007, the balance from payment accounts for 1996 wheat, 1997 wheat, 1998 wheat, 1998 durum and 1998 designated barley were transferred to the Special Account under Order-in-Council P.C. 2006-1271. Furthermore, the balance from payment accounts for 1999 wheat, 1999 durum and 1999 designated barley was transferred under Order-in-Council P.C. 2007-145.

Program activity during the 2006-07 crop year is detailed as follows:

	Unexpended at beginning of year	Authorized	Expended	Expired	Unexpended at end of year
Market development program	$ 162	$ –	$ (162)	$ –	$
Canadian International Grains Institute capital expenditures	90	–	(90)	–	
University of Alberta Agri-Food Discovery Place	100	–	–	(100)	–
Scholarship program	12	388	(363)	–	37
Variety Identification Project (VIP)	124	–	(124)	–	–
Fusarium head blight research	–	300	(200)	–	100
	$ 488	$ 688	$ (939)	$ (100)	$ 137

15. CONTINGENCY FUND

The Act provides for the establishment of a contingency fund. The Contingency Fund can be populated through a variety of mechanisms, including the results of operations of the PPO program, or other sources of revenue received in the course of operations. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $60 million. The components of the Contingency Fund are described below:

Producer Payment Options program

The Corporation has implemented payment alternatives for producers. The Fixed Price Contract (FPC) and Basis Price Contract (BPC) provide producers with the opportunity to lock in a fixed price or basis for all or a portion of their grain by October 31, three months after the beginning of the crop year. The FPC and BPC provide, on delivery, the initial payment for the actual grade delivered. An additional payment representing the difference between the fixed price and the initial payment for the reference grade is made within 10 business days. (Additional payments on the BPCs are not made until the full contract value is priced.) The producer is not eligible for other payments from the pool account. In 2005-06, a Daily Price Contract (DPC) was introduced for wheat. It operates similarly to an FPC contract; however, the sign-up occurs before the beginning of the pricing period. The sign-up period for the 2006-07 DPC began on June 1, 2006 and ended on July 21, 2006 and the pricing point is U.S. elevator spot prices.

The Early Payment Option (EPO) provides producers with a greater portion of their expected final pool price at time of delivery, while still allowing them to remain eligible to participate in price gains if pool returns exceed EPO values.

The Pre-delivery Top-up (PDT) provides producers who have taken a fall cash advance to apply for an additional per-tonne payment for their grain prior to delivery. Repayment is received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. Producers who participate in the PDT are charged an administration fee, with any surpluses credited to the Contingency Fund. In 2006-07, the PDT program included discounts totalling $311, financing costs of $213 and a write-off of uncollectable accounts of $84.

The surplus or deficit arising from the operation of these programs is transferred to the Contingency Fund, so that net operating results will not affect the pool accounts.

Other

As provided for under *The Act*, excess interest earnings from the barley pool have been transferred to the Contingency Fund. The transfer amount is based on a specific formula approved by the board of directors. The formula ensures that a fair amount of interest earnings, on a per-tonne basis, is allocated to the barley pool and the distorting effect of certain costs in years when pool volume is unusually low is mitigated. Consistent with the treatment applied to the pools and PPO program, the surplus is not specifically funded and earns interest at the Corporation's weighted-average cost of borrowing.

During 2006-07, the Corporation transacted non-pool barley sales under the authority of Section 39.1 of *The Act*. Given the limited number of transactions and therefore the related market sensitivities, the profit of $78 was directly recorded to the Contingency Fund. A total of 5,906 tonnes were traded.

The Contingency Fund balance at July 31, 2007 is detailed as follows:

	Producer Payment Options program						**2007**	2006
	Wheat	Durum	Des. barley	Barley	PDT	Other	**Total**	Total
Opening surplus, beginning of year	$ 24,790	$ 533	$ 715	$ 1,734	$ 40	$ 16,500	**$ 44,312**	$ 48,612
Transferred from pool accounts	–	–	–	–	–	1,878	**1,878**	789
Surplus (deficit) from								
non-pool programs	(40,139)	264	499	749	14	78	**(38,535)**	(6,690)
Interest earned	805	17	26	20	2	701	**1,571**	1,601
Closing surplus, end of year	$ (14,544)	$ 814	$ 1,240	$ 2,503	$ 56	$ 19,157	**$ 9,226**	$ 44,312

16. INVENTORY ADJUSTMENTS

Inventory adjustments capture the related dollar impact, at the current initial price, of changes in grade and protein of the grain delivered by producers from the grain that is ultimately available for sale.

Overall promotion in the grain handling system is disclosed as an expense to the pool, because the Corporation compensates grain companies for the increase in current initial-price value created by positive blending activities. Generally, there is an overall benefit to the pool to the extent that the greater sales value returned to the pool from selling higher quality grain exceeds the increase in the initial value.

In the case of demotions, the opposite is true. The pools' overall sales value will be lower from having lower quality grain to sell, compared to that which was reported and upon which the Corporation must still make future adjustment, interim and final payments. This loss is mitigated because the grain companies are only reimbursed the value of the lower-quality grain, whereas they have paid the farmer the higher initial price of the higher-quality grain originally reported as delivered.

17. OTHER GRAIN PURCHASES

Other grain purchases are primarily made up of late receipts, inventory overages and inventory shortages. Late receipts arise from producers' deliveries subsequent to the previous pool period close. Overages and shortages occur when the Corporation's agents' inventory records differ from those of the Corporation. Acquired overages and late receipts are recorded as an expense to the pool, with the pool benefiting to the extent that the ultimate sales proceeds of this grain exceed its cost. Shortages must be settled by the Corporation's agents at export price so that the pool is not negatively impacted by the disappearance of recorded stocks.

18. OTHER DIRECT EXPENSES

Other direct expenses is primarily made up of program expenses, agents' commissions, fees for inspection and testing of grain, Corporation-owned hopper cars and demurrage.

19. OTHER INCOME

The most significant item in other income is the recovery of freight charges. The Corporation's agents deduct freight from producers at the time of grain purchase based on the point of delivery. If the agents do not incur these freight costs on the movement of the grain, the freight recoveries are returned to the Corporation for distribution to all pool participants.

Other income also includes Freight Adjustment Factor (FAF) recoveries. FAF is deducted from producers by the Corporation's agents and remitted to the Corporation. Producers pay the lesser of rail freight to Vancouver or rail freight to Thunder Bay plus FAF. The FAF deductions are to cover a portion of the costs of moving grain to the east coast that are in addition to the rail freight costs of going to Thunder Bay.

20. ADMINISTRATIVE EXPENSES

		2007		2006
Allocated as follows:				
Wheat pool	$	**48,759**	$	44,625
Durum pool		**12,515**		16,062
Designated barley pool		**5,818**		5,460
Barley pool A		**426**		3,222
Barley pool B		**62**		475
Total to pools		**67,580**		69,844
PPO programs		**4,192**		1,717
Producer payment accounts		**354**		367
Non-pool barley		**19**		–
Administrative expenses	$	**72,145**	$	71,928

Administrative expenses, less the expenses attributable to the distribution of final payments, costs related to the PPO program and cash buying, are allocated to each pool on the basis of relative tonnage.

21. COMMITMENTS

Operating leases

The Corporation has entered into operating leases for premises and office equipment. Lease terms are for periods ranging from one to five years, expiring between October 2007 and January 2011. The Corporation has the option to renew most of these leases for additional terms ranging from one to three years. Total lease payments for premises and office equipment expensed in the year ended July 31, 2007 were $687 (2006 – $667).

Lease costs on premises and office equipment are charged to administrative expenses. Commitments under operating leases are as follows:

		Premises and office equipment
2007–2008	$	425
2008–2009		128
2009–2010		50
2010–2011		14
After 2011		–

Capital leases

The Corporation has entered into capital leases for its vehicles. These capital leases are accounted for as an acquisition of an asset and an assumption of an obligation. The vehicles under the capital lease will be amortized on a straight-line basis over their economic lives. Estimated future payments on vehicles leased to June 2009 are:

	Vehicles
2007-08	$ 138
2008-09	23

Other

The Corporation has agreed to fund the operations of the Canadian International Grains Institute (CIGI) for a base amount of $1,967 annually, through to 2009.

22. DERIVATIVE FINANCIAL AND COMMODITY INSTRUMENTS

The Corporation enters into single and cross-currency interest-rate swap contracts to manage its funding costs and to implement asset/liability management strategies designed to reduce exposure resulting from currency and interest-rate fluctuations.

The Corporation also enters into foreign-exchange forward and currency-swap agreements with financial institutions to hedge currency exposure arising primarily from grain sales and funding operations.

These financial instruments qualify for hedge accounting and are not recognized in the balance sheet. As at July 31, 2007, the total notional amount of these financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2007			2006		
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest-rate contracts						
Single-currency interest-rate swaps	**$ 452,349**	**$ 843**	**$ 8,219**	$ 929,168	$ (8,193)	$ 10,032
Cross-currency interest-rate swaps	**992,202**	**(58,900)**	**42,430**	698,158	(71,974)	31,361
	1,444,551	**(58,057)**	**50,649**	1,627,326	(80,167)	41,393
Foreign-exchange contracts						
Forwards	**1,497,441**	**31,087**	**48,893**	1,604,746	(4,893)	14,609
Currency swaps	**25,137**	**(80)**	**–**	178,938	1,359	1,359
	1,522,578	**31,007**	**48,893**	1,783,684	(3,534)	15,968
	$ 2,967,129	**$ (27,050)**	**$ 99,542**	$ 3,411,010	$ (83,701)	$ 57,361

As of the statement date, the foreign-exchange contracts that mature within one year, and between one year and five years, had notional values outstanding of $1,514,873 and $7,705 respectively. The interest-rate contracts with maturities of less than one year, between one and five years and beyond five years had notional amounts outstanding of $32,004, $342,934 and $1,069,613 respectively. The swap contracts rates ranged between 4.09 per cent and 5.21 per cent.

The net fair value of interest rate and foreign-exchange contracts refers to the estimated net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies including net present value analysis and quoted market prices, where available. These estimates of fair value are affected by the assumptions used and, as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The Corporation is only exposed to credit risk on contracts with a positive fair value. The credit-risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the financial risk-management policies approved by the Corporation's board of directors. Master-netting agreements are used to reduce credit risk from potential counterparty default. The largest notional amount contracted with any institution as at July 31, 2007 was $ 908,535 (2006 – $1,006,220) and the largest credit risk with any institution as at July 31, 2007 was $ 38,105 (2006 – $16,415).

The Corporation also enters into commodity contracts, including futures and options, for wheat and barley in the exchange markets, as a normal course of business. The contracts outstanding at July 31 are carried in the financial statements at fair value.

23. EMPLOYEE FUTURE BENEFITS

Description of benefit plans

The Corporation has a registered Defined-benefit pension plan, a supplemental Defined-benefit pension plan, a Defined-contribution pension plan and a Defined-benefit pension plan that provide other post-employment benefits to eligible employees. The Defined-benefit pension plans are based on years of service and average earnings prior to retirement. The supplemental Defined-benefit pension plan is available for employees with employment income greater than pensionable earnings. The defined-contribution component provides pensions based on contributions made and investment earnings. Other post-employment benefits include health care, life insurance, long-service allowance, unused sick leave accumulated prior to 1988 and unused vacation accumulated prior to 1996.

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the Corporation to its Defined-benefit pension and Defined-contribution plans, plus cash payments made directly to employee and beneficiaries and third-party service providers for the benefit plans, were $14,807 (2006 – $6,378).

Expenses

The Corporation's expenses for its Defined-benefit pension and other post-employment benefit plans, for the year ended July 31, 2007 was $6,975 (2006 – $7,942).

Financial position of the benefit plans

The Corporation measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at July 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes were prepared as at July 31, 2006. The next valuation will be as at July 31, 2007. The most recent actuarial valuation of the other post-employment benefit plan was prepared as of July 31, 2006 with the next required valuation as of July 31, 2009.

The following table presents information related to the Corporation's pension and other post-employment benefit plans including amounts recorded on the Balance sheet and statement of administrative expenses for the period. The information has been extrapolated from the July 31, 2006 actuarial valuations.

	2007 Pension benefits	2006 Pension benefits	**2007 Other benefits**	2006 Other benefits
Change in fair value of plan assets				
Balance at beginning of year	**$ 14,667**	$ 9,700	**$ –**	$ –
PSSA Transfer and other adjustments[a]	**33,420**	–	**–**	–
Contributions by Corporation	**14,156**	5,065	**1,096**	1,195
Contributions by employees	**1,182**	1,027	**–**	–
Expected return on plan assets	**3,758**	695	**–**	–
Actual return on plan assets	**(3,228)**	–	**–**	–
Benefits paid	**(1,367)**	(1,820)	**(1,096)**	(1,195)
Fair value, end of year	**$ 62,588**	$ 14,667	**$ –**	$ –
Change in accrued benefit obligation				
Balance at beginning of year	**$ –**	$ –	**$ 24,930**	$ 31,487
Actuarially determined obligation[a]	**49,290**	–	**–**	–
Current service cost	**4,220**	–	**653**	529
Interest cost on benefit obligation	**2,970**	–	**1,530**	1,422
Contribution by employees	**1,182**	–	**–**	–
Benefits paid	**(1,367)**	–	**(1,095)**	(1,262)
Plan amendment[b]	**–**	–	**2,778**	(4,285)
Actuarial gain on accrued benefit obligation	**(1,185)**	–	**–**	(2,961)
Benefit obligation, end of year	**$ 55,110**	$ –	**$ 28,796**	$ 24,930
Funded status				
Plan surplus (deficit)	**$ 7,479**	$ –	**$ (28,796)**	$ (24,930)
Unamortized net actuarial loss	**9,094**	–	**6,693**	7,020
Unamortized transition (asset) obligation	**(4,897)**	–	**5,122**	2,876
Amortization of deferred pension asset	**(829)**	–	**–**	–
Accrued benefit asset (obligation), end of year	**$ 10,847** [c]	$ –	**$ (16,981)** [d]	$ (15,034)

[a] Previously, the Corporation reported that although the negotiations for the transfer of assets from *PSSA* was complete, the transfer value was unknown. Hence, total plan assets and accrued benefit obligation were not determined in the prior year and were not available. During 2007, the majority of the assets have been transferred from *PSSA* and hence, the amounts are now included in the opening balance.

[b] In 2006-07, the accrued benefit obligation was increased by $2,778 as a result of a loss from a plan design change. The loss will be amortized over 13 years and netted against the transitional obligation as required by GAAP. (A 2005-06 plan design change resulted in a gain of $4,285.)

[c] Recorded in deferred and prepaid expenses

[d] Recorded in accounts payable and accrued expenses

Defined benefit costs

		2007 Pension benefits		2006 Pension benefits		2007 Other benefits		2006 Other benefits
Defined benefit costs								
Current service cost	$	**4,220**	$	5,065	$	**653**	$	529
Interest cost on benefit obligation		**2,970**		–		**1,530**		1,422
Actual return on plan assets		**(3,228)**		–		**–**		–
Actuarial gain on accrued benefit obligation		**(1,185)**		–		**–**		(2,961)
Costs arising in the period		**2,777**		5,065		**2,183**		(1,010)
Adjustments for difference between costs arising in the period and costs recognized in the period in respect of								
Return on plan assets		**(530)**		–		**–**		–
Actuarial gain (loss)		**1,420**		–		**327**		3,566
Transition asset (obligation)		**(564)**		–		**533**		320
Amortization of deferred pension asset		**829**		–		**–**		–
Total expense included in administrative expenses	$	**3,932**	$	5,065	$	**3,043**	$	2,876

Significant assumptions

The weighted-average assumptions at the measurement date used in the calculation of the Corporation's benefit obligation are shown in the following table:

	2007	2006
Expected return on plan assets	**7.00%**	–
Discount rate	**5.50%**	5.50%
Rate of compensation increase	**3.00%**	3.00%
Medical cost trend rate	**10.00%**	10.00%
Medical cost trend rate declines to	**5.00%**	5.00%
Medical cost trend rate declines over	**5 years**	5 years
Dental cost trend rate	**3.00%**	3.00%

Sensitivity analysis

Assumed medical/dental cost trend rate have a significant effect on the amounts reported. A one percentage-point change in assumed rates would have the following effects for 2007:

		Increase		Decrease
Accrued benefit obligation	$	2,845	$	(2,288)
Current service and interest cost	$	243	$	(191)

Plan assets

The percentage of plan assets based on market values at the most recent actuarial valuation are:

	2007	2006
Equity securities	**58%**	58%
Debt securities	**36%**	36%
Other	**6%**	6%
	100%	100%

Defined-contribution plan

The Corporation expensed $60 (2006 – $50) to the defined-contribution component of the Corporation's pension plan. Employees contributed $293 (2006 – $230) to the defined-contribution component of the Corporation's pension plan as at July 31, 2007. Benefits paid from the defined-contribution component were $267 (2006 – $60).

24. SUBSEQUENT EVENT

On June 7, 2007, the federal government made amendments to the CWB regulations that would have resulted in an open market for barley effective August 1, 2007. The Corporation successfully challenged the proposed regulation in the Federal Court of Canada and it was ruled illegal on July 31, 2007. The federal government appealed the decision to the Federal Court of Appeal. The appeal is scheduled to be heard February 26, 2008. The outcome is uncertain, and so an estimate of the financial effect cannot be made at this time.

25. COMPARATIVE FIGURES

Certain of the prior year's figures have been restated to conform to the current year's presentation. Specifically, on the Balance sheet, $66,990 of execution costs related to final ending inventory have been reclassified from accounts payable and accrued liabilities to inventory of grain. As well, $973,723 of temporary investments previously netted against borrowings have been reclassified to a new asset account called investments (see note 7). A corresponding reclassification was made on the Statement of Cash Flow for an Increase in investments of $114,204 previously in Decrease in borrowings. Restatements were also made on the Statement of Cash Flow related to payments to producers under the EPO program. Non-pool PPO payments were increased by $63,397 offset by a reduction of current year distributions prior to July 31 of $52,984 and a change to cash flow from PPO program operations of $10,413.

GLOSSARY OF FINANCIAL TERMS

Cross-currency interest-rate swap – a contractual agreement for specified parties to exchange principal, fixed and floating interest-rate payments in different currencies. Notional amounts upon which the interest-rate payments are based are not exchanged.

Currency swap – a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.

Derivative financial instrument – a contract or security that obtains much of its value from price movements in a related or underlying security, future or other instrument or index.

Fair value – an estimate of the amount of consideration that would be agreed upon between two arm's-length parties to buy or sell a financial instrument at a point in time.

Foreign exchange forward – an agreement to buy and sell currency simultaneously purchased in the spot market and sold in the forward market, or vice versa.

Futures contract or futures – a future commitment to purchase or deliver a commodity or financial instrument on a specified future date at a specified price. The futures contract is an obligation between the Corporation and the organized exchange upon which the contract is traded.

Hedge – a risk-management technique used to decrease the risk of adverse commodity price, interest-rate or foreign-exchange movements by establishing offsetting or risk-mitigating positions intended to reduce or minimize the Corporation's exposure.

Liquidity – having sufficient funds available to meet corporate obligations in a timely manner.

Marked to market – a procedure by which financial instruments are "marked" or recorded at their current market value, which may be higher or lower than their purchase price or book value.

Notional amounts – a reference amount upon which payments for derivative financial instruments are based.

Option – a contract that grants the right, but not the obligation, to buy or sell a commodity or financial instrument at a specified price at a specified point in time during a specified period.

Risk management – the application of financial analysis and diverse financial instruments to the control and, typically, the reduction of selected types of risk.

Single-currency interest-rate swap – a contractual agreement for specified parties to exchange fixed interest-rate payments for floating interest rate payments based on a notional value in a single currency. Notional amounts upon which the interest-rate payments are based are not exchanged.

Swap – a contractual agreement to exchange a stream of periodic payments with a counterparty.

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